

WINTER 2010

Spending Smarter – Retailing Post GFC



The effects of the GFC are waning and the Australian economy is again experiencing positive economic growth and with that the retail sector is

beginning to regain momentum. A clear indication of this can be seen in the innovative strategies generating a strong record of sales in this sector.





EXECUTIVE SUMMARY

To counter and then overcome the receding retail trade performance of recent times the most incisive strategies adopted by successful retailers include:

- › Competing on price: this can include taking advantage of the low spending environment by concentrating on lower cost products, driving high volumes of stock at low margins, having less reliance on sales to move stock and providing high quality products at low prices;
- › Innovative marketing techniques: this can include implementing a good quality, retail centre fitout, to deliver an “experience driven shopping destination communicated by creative marketing campaigns and events to attract customers; and
- › Changing the stock mix to attract more customers: including moving quickly to remain relevant to customers, reinventing themselves to increase customers, providing niche products and simplifying their product range.

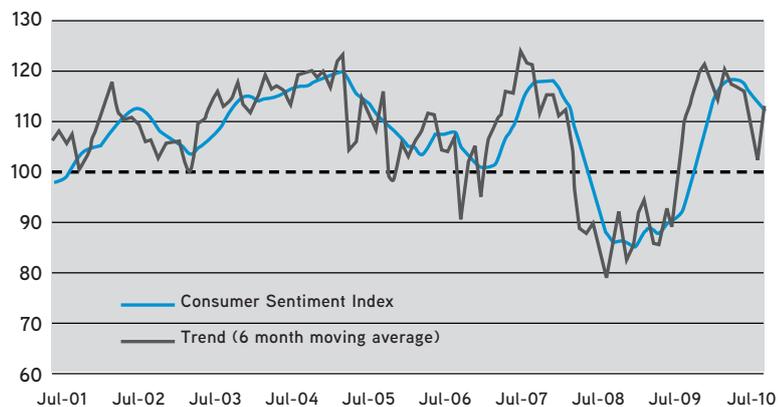
INTRODUCTION

2010 has not been particularly kind to the retail sector. It started on a high note following the end of the GFC with consumer sentiment creeping up quickly towards the end of 2009, reaching a highpoint in January 2010. As the impact of the stimulus package faded and interest rate rises started to kick in, many shoppers began to feel that although the economy was growing again, they did not approach shopping with the enthusiasm they displayed prior to the onset of that global economic malaise.

Retail trade figures reflected this. Despite being in the midst of global economic downturn, retail trade in 2009 grew by 3.1%. In 2010 this growth is forecast by Access Economics to decline to just 1.9%.

Although retail trade growth is expected to be modest in 2010, there are many retailers and shopping centre owners doing particularly well. This paper examines some of the techniques that successful companies are utilising to remain competitive in this challenging and competitive economic environment.

CONSUMER SENTIMENT INDEX



Source: Westpac – Melbourne Institute

HOW TO THRIVE IN A DOWNTURN

1. DON'T UNDERESTIMATE RETAIL SPENDING AT THE CHEAPER END OF THE MARKET

Just because products are low in price, doesn't mean that only low-income consumers are interested in purchasing them. Similarly, for cheaper items, low-income consumers can be a significant driving force for spending. Grocery spending for example is one category where the difference in spending between low and high incomes is comparatively minor.

Aldi's first stores in Australia were in low-income areas such as West Heidelberg in Melbourne and Fairfield West in Sydney. Acceptance of a new supermarket brand focused on low prices spread quickly and Aldi now has 200 stores nationally. These stores are in both low and high-income areas and attract a significantly diverse demographic.

2. CONCENTRATE ON HIGH VOLUMES AND LOW MARGINS

There are essentially two ways a retail store can generate a return on sales: generate a high volume of sales with a small margin on each sale, or generate a smaller sales volume with a higher margin on each sale. Many of the stores that are experiencing strong sales growth in the current economic conditions are concentrating on the high volume/low margin model. Many have a large number of stores, which also allows for an increase in volume.

Cotton On provides good quality, fashionable casual clothes that are affordable. In an economic downturn, consumers are typically more focused on watching where their disposable income goes. As such, lower price items appear to be selling better. By keeping their margins low, they are able to sell higher volumes generating stronger sales performance.

3. DON'T UNDER SPEND ON RETAIL FITOUT

Just because products are inexpensive, doesn't mean that the fitout should cut corners – and look that way. Some retailers such as *Aldi* have a very clean and simple fitout while others such as stationery brand *Smiggle* offer low price items in a fun colourful environment. Even if people are not spending large amounts of money each visit, a good looking store is likely to encourage repeat visitation thereby increasing sales.

This is also the case with shopping centres. Even if a centre is in a low income area, an attractive, well maintained centre will encourage more people to visit more often and thereby increase sales.

4. MAKE STORES “EXPERIENCE-DRIVEN”

Limited retail spending means that people are fussier about where to spend their money. A good way to attract people is to make stores experience driven.

Customers entering *Sportsgirl*'s flagship Bourke Street Mall store in the Melbourne CBD are greeted by striking and ever changing artwork and once in store they are offered services such as the *Style Me Suite* (a free professional styling advice) and occasional makeup artists “in residence”. Although *Sportsgirl*'s clothing is mid range in price, the services offered mean that large numbers of people are attracted to the store's “experience” – and more footfall means increasing sales.



Sportsgirl

Sportsgirl's flagship stores are more than a retail outlet. They are fun fashion experience.

5. MOVE QUICKLY TO REMAIN RELEVANT TO CUSTOMERS

Customers are generally quite fickle when it comes to brands and stores offering products at a lower price point are no different. Acting quickly on new trends at a cheaper price point means that customers will buy more often, attracted by the ability to remain at the cutting edge of fashion without spending a lot of money.

Forever New responds quickly to trends and introduces new styles every week, ensuring customers are always able to find the latest “must have” items to add to their wardrobe, with prices to suit every budget. It is possible to buy a top from as little as \$19.99 and a dress from \$49.99. By providing limited amounts of cutting edge fashion at a low price, *Forever New* attracts a large number of customers more frequently than those stores that provide new lines seasonally.

ALDI – CHEAPER PRODUCTS LEADS TO HIGHER MARKET SHARE

Bringing with it an extraordinary international retailing record spanning five decades, *Aldi* entered the Australia marketplace in 2001. And within a decade this retailing phenomenon can count now over 200 stores across NSW, ACT, Queensland and Victoria in its Australian fleet. Over this period the *Aldi* brand name has grown with this market presence to capture a significant share of what historically was a duopoly-dominated market.

Aldi's goal is "to provide our customers with the products they buy regularly and ensure that those products are of the highest possible quality at guaranteed low prices".

From a discounting point of view, *Aldi* has certainly changed Australian customers' purchasing behaviour. Its distinctive *Own Brand* product strategy has delivered a real point of difference for Australian consumers that has driven the sustained success of the retailing operations on a national scale.

Although *Aldi* is widely known as a discount supermarket, the brand strategy has encompassed a number of other initiatives including environmental sustainability in their product lines and store format. The company's focus on localised aspects such as Australian made products and a national pricing strategy has also had a strong influence on the acceptance of its products.

6. LOOK AT REINVENTING YOUR BRAND TO ATTRACT MORE CUSTOMERS

Sometimes stores that focus on the lower price end of the market find they are becoming increasingly irrelevant to consumers. There is no area where this is more apparent than discount department stores. Since the 1980s these stores have seen their market share steadily eroded by specialty stores offering similar products but with higher levels of customer service. With specialty stores also increasingly able to offer lower prices, discount department stores have become less competitive on price.

With the appointment of former *McDonald's* Australia boss Guy Russo, *Kmart* has made major changes to their store layouts to attract more customers and to differentiate themselves from competitors (both other DDSs and specialty stores). Other key changes have been to lower stock levels and provide smaller stores to remain relevant to consumers.

7. CHANNEL INTO NICHE PRODUCTS TO PROVIDE A POINT OF DIFFERENCE

In an economy where consumers are increasingly cautious in their purchasing decisions, some low cost items seem virtually recession proof. Items such as lipstick, chocolate and alcohol are usually regarded as the three items that people will continue to purchase no matter what the economic conditions.

Despite all the rhetoric of a paperless office, a fourth product type that has been resistant to the downturn has been boutique stationery. Stores such as *Smiggle*, *Kikki K* and *Typo* all sell gifts and stationery – relatively low cost items that are diverse enough to provide a point of difference from stationery products sold in other stores.

8. DON'T OVERCOMPLICATE YOUR PRODUCT RANGE

A simple to navigate product range allows for easier decision making for time poor consumers and can allow for lower cost items to be provided. *Aldi* has made its product range uncomplicated. For example, only one line of chopped tomatoes is available, as is only one brand of nappies. By not overcomplicating the product range, the size of an *Aldi* store can be smaller. In addition, the larger quantities of single-product lines deliver stronger bargaining power with suppliers.

Kmart has also focused on narrowing its product range to stock fewer brands of the same product. For example, previously *Kmart* stocked and sold 24 different irons, now it has just 14 on the shelf. In fact the overall strategic downsizing of the business operations from over 100,000 to 45,000 product lines made the retailer an even more attractive proposition in its recent takeover by *Westfarmers*.

9. DON'T RELY ON SALES TO INCREASE REVENUE

Sale periods are traditionally a way to clear excess stock however their excessive use to increase sales can have a detrimental impact on the way consumers view a particular store. Continual discounting motivates customers to "shop the sales" rather than purchase throughout the year at full retail price.

Bunnings redresses this issue successfully in hardware with a strategy of continually low prices throughout the year. This approach has flown through to *Wesfarmers'* owned *Kmart*. Research by *Kmart* has shown that of the two million people visiting the store each week, only around 25% actually purchase anything. By offering consistently low prices, *Kmart* is looking to ensure more people will purchase on any given visit rather than waiting for sales.

FOREVER NEW – FAST FASHION LEADS TO STRONG SALES

Forever New, a fashion clothing and accessories brand was founded in Melbourne in 2006. There are now 75 stores across five countries.

The *Forever New* team of buyers and designers regularly travel the globe and keep a daily watch on international trends and celebrity-led new looks to deliver their customers the latest styles and fashion directions. A key to their success is a strategic ability to deliver this fashion appeal at an affordable price point. So the *Forever New* customers are always able to find the latest “must have” fashion outfits and accessories to add to their wardrobe at prices to suit every budget.

To complete the shopping experience, *Forever New* invests considerable attention to the shop fitout to ensure every store has clean spacious lines, good lighting and contemporary design. They know it’s not just about stocking the best fashion, it’s all in the presentation.

10. USE INNOVATIVE MARKETING TECHNIQUES

Using innovative marketing techniques can have a dramatic impact on sales. Traditional mediums such as print, radio or television advertising can be used to great effect to create interest in the store.

Online and electronic versions of marketing can be low in cost but also effective. Post GFC, many retailers are having a lot of success utilising these techniques to build business. This type of marketing can also be personalised, further improving its ability to reach intended customers.

Word of mouth is another way that successful retailers improve their sales. While *Aldi* does use mail drops to surrounding customers and occasional newspaper advertising, its success has stemmed largely from satisfied customers telling their friends and family about the quality of goods and low prices.

11. DON'T ASSUME LOW PRICES NECESSARILY EQUATE TO LOW QUALITY

Low prices do not immediately translate to low quality and this is an important message that needs to be conveyed to consumers. All the retailers mentioned in this paper are able to offer low prices but all strive to provide high quality items at this price point.

Aldi, for example, provides own branded products and has changed the way people view such products. In addition, they stock a range of organic products, as well as aiming to stock a high proportion of Australian made items. Similarly *Cotton On* and *Forever New* both rely on high volumes to reduce prices without skimping on quality.

12. USE EVENTS TO ATTRACT CROWDS

Attracting large crowds into shopping centres and retail stores can provide a significant sales boost during economic downturns. Events such as school holiday activities bring in large numbers of adults and children. Even if they do not all spend money within the centre, a significant proportion will do so, thereby boosting sales.

Having the school holiday show close to a food court is an easy way to increase sales of the retailers selling coffee and food. An example is Greensborough Plaza in the northern suburbs of Melbourne. They have a stage set up close to the food court and in this area they show regular shows during school holidays. While children watch the show, the surrounding coffee shops do exceptionally well with the trade from parents and carers.

CASE STUDY

COTTON ON GROUP – MEGA GROWTH IN A SLOW MARKET

The *Cotton On* brand began trading in Victoria in 1991 with a single store and a handful of employees. Since then it has grown to 600 stores and more than 4,500 employees. The original *Cotton On* offer has expanded to successfully branch into intimates, sleepwear and active-wear with *Cotton On Body* as well as children's fashion with *Cotton On Kids*, footwear with *Rubi* shoes and gifts and stationary with the *Typo* range.

The *Cotton On* Group now has a significant presence in Australia, New Zealand, Singapore, Hong Kong, Malaysia and the US plus a vision to have literally thousands of *Cotton On* stores dot the globe in the coming five years.

Primarily, *Cotton On* operates as a “design to retail” business creating the flexibility to control aspect of the process from design to the timing of product releases in their retail outlets. That way they create a value for money product and positioning their customers can readily relate to. Their mission is to become the most innovative and responsive brand in their market without compromising on their focus on making fashion “fun, affordable and able to be updated weekly.”



CASE STUDY

KMART – REINVIGORATING A RETAIL ICON

Kmart opened its first store in Burwood East, Victoria in 1969 and now has 184 stores across Australia and New Zealand. In recent years, the discount department store sector has been impacted by the growth in cut price specialty retailing. In May 2007, *Kmart* reported a sales drop of 3.0% for over one quarter and an overall drop in sales from 2006. With the takeover of *Kmart* by Wesfarmers in late 2007, a planned investment of \$300m over five years was proposed. The new Managing Director, Guy Russo, announced a three-phase plan to fix the chain.

Some of the issues that Russo outlined included excessive inventory, not catering appropriately to customers, having an overly complex product range and low levels of purchasing by customers of the store.

Latest financial figures suggest that Russo's strategy is having results. In February 2010, for the first time in more than a decade, *Kmart* was the highlight in the *Wesfarmers* results announcement, having doubled earnings year on year.





CONCLUSION

We are nearing the end of sluggish retail trade figures and next year is expected to be a lot stronger, certainly above the levels experienced in 2010. Already we are starting to see a rise in retail profits. SmartCompany.com.au reported that annual retail gross operating profits to March 2010 achieved record levels of 4.7%, compared to an average performance of 3.2%.

While every indicator points towards a resurgent retail sector, there is no doubt that the discount end of the market will continue to thrive. And in looking back we can look forward. The initiatives and strategic rethinking that retailers and shopping centre owners applied to counter the downturns they faced have given Australian consumers new incentives to reacquaint themselves with “the shopping experience” now and well into the future.

After all, who doesn't like a bargain!



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