

FIT TO SURVIVE

When the going gets tough for retailers, getting the tough consumer to go shopping is harder than ever. But some stores are succeeding, so let's look at their tactics.

Report: Jackie Range

● In a tough market, some retailers are getting it right.

Jaded shoppers are sick of goods first priced expensively and then later discounted, researchers and analysts say. The experts say vendors have become complacent and need to work harder to make their offerings distinct, or risk collapse.

Already big retailers - at one stage seemingly unassailable - have fallen.

Meanwhile, other retailers are doing well. The common themes among survivors are that they charge what their wares are worth - upfront - and have products their customers want to buy and brands that set them apart. And they are embracing the internet as a way of informing customers and driving sales.

The stakes are high: the economy is seen as a global bright spot, attracting foreign retailers, such as the Spanish clothing chain Zara, to compete against locals for growth.

"What you are seeing to a degree is the survival of the fittest," says Steve Ogden-Barnes, an industry fellow at the Deakin Graduate School of Business in Victoria.

Retail watchers believe the right decisions now will help retailers prosper in an increasingly competitive marketplace.

There's no dispute among experts that it's a difficult market for stores. Although there are myriad factors behind the red ink overwhelming retailers and the empty shops on our high streets and in shopping malls, some factors stand out.

Consumers are buying more online, with some of that is from overseas. Fears about the economy are escalating.

"People are shopping to 'needs' versus 'wants'," says Ben Gilbert, retail and consumer products analyst for bank UBS.

That caution among shoppers comes after a culture of relative over-consumption, says Ogden-Barnes. People may have satisfied their needs and can stop buying, even if products are on discount.

Some retailers have already succumbed to the changing consumer trends. Clothing and footwear company Colorado Group is in receivership. REDgroup Retail, the owners of booksellers Angus & Robertson and Borders in Australia, is in administration.

Others are taking knives to their profit forecasts. Premier Retail downgraded its pre-tax earnings in late July for the second time in five months and said it would close stores. Retailers David Jones, Noni B and Country Road are all facing poor sales and diminishing margins.

But there are some signposts for them about what makes a winner and what a loser, retail experts say.

One is a keen eye for pricing. At a time when shoppers have increasing amounts of information and are growing tired of retailers are being forced to change their tactics.

It's not easy to charge customers higher prices for goods they can find more cheaply elsewhere. As more than 65 per cent of purchases are now initiated online, according to research by professional services firm PwC and consulting outfit Frost & Sullivan, retailers have ample opportunity to find out how much they should be paying for products.

Some shoppers are also using smart phone applications such as RedLaser, which allows them to use barcode scanning technology to compare prices.

"All the information and knowledge about the consumer is gathering online is changing the way that they shop when they do come to the store," says Stephen Kulmar, founder of RetailOasis, a retail marketing and business improvement consultancy.

That means a model popular among retailers for years - selling some stock at high prices, then discounting and shifting more - is still used. Despite this, many retailers are still using that high-low pricing method, says Myer, Country Road and Witchery, retail watchers say. Myer, Country Road and Witchery declined to comment.

"It looks like Australia's on sale when it goes," says Ogden-Barnes. "Twenty years ago, a 30 per cent sale banner would have had people queuing up overnight."

Now, sales make consumers a bit more cautious. They believe the products shouldn't have come down so much in the first place. In the final days of the Colorado, even 70 per cent discounts were not getting customers into the store, he says. The remainder of Colorado now is a single store clearance outlet.

"Retailers that are using high-low as a strategy, or an approach to product pricing, are failing because the consumers become anaesthetised," Kulmar says.

"I just don't think today that you can get a consumer by making a promise of a discount because I think the consumer knows that the full price really was never the full price."

Kulmar predicts many retailers will change. Among those to change is Kmart, but not such as hair product chain Hairhouse.

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This year, Peter Lee* rated ANZ #1 for developing 'creative ideas and solutions'

Rated #1 by Peter Lee in more key success measures than any other bank, ANZ has local knowledge and insights to help businesses execute growth

*Peter Lee Associates' Large Corporate and Institutional Relationship Banking Survey, Australia - conducted from February to April 2011. ANZ8211/4

WINNER: DI BELLA COFFEE

Phillip Di Bella, the founder of Di Bella Coffee, has one top tip for maintaining growth: make sure it is planned.

"Strong foundations – it's the Italian in me ... the Italians are builders and developers," Di Bella says. "It's a numbers game. If you've X amount of employees manufacturing X amount of product and looking after X amount of customers, as one grows, the other has to grow to make it work," he says.

It's the secret to Di Bella's customer service. He doesn't sign up new customers then add staff and machinery, he hires staff, builds up production and then cuts deals.

His approach helped the coffee wholesaler and retailer, which he founded as a small coffee roasting

business in 2002, increase its revenue more than \$20 million and win this year's ANZ Private Business Award for customer service.

Di Bella focuses on customers but also keeps a tight focus on those who don't fit the company's products. "We spend a majority of our time researching people who don't choose Di Bella coffee," he says.

By talking to new customers Di Bella has devised some of the best strategies. "It drives somebody to buy coffee from a supermarket which is stale and they don't know what they're buying?"

Di Bella found that customers were shopping in supermarkets for convenience and were prepared to compromise on quality. He began to offer roasted coffee at lower prices, delivered to customers. It was ordered before 10am the morning Monday and Friday are dispatched the same day.

Smartest move: treat our industry as a people business, not a product business.

Biggest leadership mistake: Waiting to develop a hierarchy underneath me.

How to stay ahead: Research people who don't buy our product.

EXCELLENCE IN CUSTOMER SERVICE

Winner: Di Bella Coffee
Finalists:

Allied Express Transport
Entity Solutions
GMHBA
Order-In
WBP Property Group
(highly commended)

Photo-illustration by Karl Hildebrand, photo by Glenn Hunt

across the region. To find out more talk to Scott Armstrong on (02) 9227 1086.

ANZ
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Warehouse, winner of the BRW ANZ Private Business Award (<\$100 million), have built their growth partly on keen pricing and using expert sales staff to advise customers.

The Kmart changes came after customers weren't buying at the chain, says Guy Russo, the company's chief executive. "This model was last choice as far as the consumer was concerned. They shopped here when products were on sale."

Zara, says Kulmar, is an example of a retailer that doesn't play the high-low pricing game. "They put the item on the shelf, they know exactly what the sell-through rates are ... and they know what price they can price it at," Kulmar says.

Zara doesn't do promotions or markdowns during a season, a representative from owner Inditex's communication and institutional relations corporate division explains in an email, although it does have sales periods when prices are lower.

Another factor in creating successful retail is to provide features that set the shopping experience apart. Wholesaler Di Bella Coffee, the winner of the BRW ANZ Private Business Award for customer service, has grown partly by having convenient ways for wholesale and retail customers.

But most retailers are not investing enough, says retail consultancy Retail Doctor Group's managing director Brian Walker. "There are businesses out there, national chains, that have not changed their fitout or look substantially for 10 years-plus," says Walker. Country Road is one example, he says.

Country Road declined to comment.

Some categories of stores, such as fashion, are oversupplied, so customers can be picky, says Ogden-Barnes. "If you haven't got a standout position and if you haven't got a compelling or at least an attractive offer in what you sell, then basically, customers can go anywhere," he says. "Or they can choose to go nowhere."

Retailers doing well are those that have created a distinct offer or message. Zara is successful both for its offering and its novelty, he says. "They are obviously a hot overseas property. Half their appeal is in what they sell and the other half is in, I think, the fact that they are still a little exotic." Inditex does not disclose sales figures by countries and declined to comment on Zara sales in Australia.

Borders failed to present a worthwhile offering. Ogden-Barnes says people knew they could buy books more cheaply online.

The consumer may be the winner. The strong retailers will survive, he adds. "I think what we will see now is the decline of the mediocre in the true sense – businesses that aren't relevant or whose model no longer fits the market." **BRW** with Andrew Heathcote

WINNER: HAIRHOUSE WAREHOUSE

Joseph Lattouf, the founder of hair and beauty products chain Hairhouse Warehouse, has learnt not to let others mess with his business model. His mistake was to listen in the first place.

"People tried to change it because they tried to lift us upmarket. We're not an upmarket brand ... we're a mum-and-dad operation where everybody can come in and buy from \$2 to \$300 a product."

The big lesson: "Don't let people tell you what

to do, if they haven't done it before," Lattouf says. It's a lesson that is paying off for Hairhouse Warehouse. With its mixture of hair salon, beauty parlour and big range of hair and beauty products, the company is growing fast. It has 131 stores; all but eight are franchises. Over the next 12 months it plans to open another 15.

The shops tap into a trend in which retail and services mingle. Hairdressers work as sales assistants and can offer advice on which

hair and beauty treatments to buy. The chain sells the branded products typically sold only in hairdressing salons.

In preparation for expansion overseas, Lattouf has invested \$1 million on strategic consulting and planning, registering trademarks, getting market data, developing legal infrastructure and putting in place a recruitment process. He has identified 24 countries where he would like to open

Hairhouse Warehouse shops, with the possibility of **Smartest move** Creating the - a box of products for far less than normal price traffic and brand awareness. **Growth tip:** customers will come back, loyalty programs service and **How to stay** With e-commerce making it easier customers to communicate



SUCCESSFUL PRIVATE BUSINESS OF THE YEAR OVERALL (TURNOVER)

Winner: Hairhouse Warehouse

Finalists: Australian Private Testing Service, Crust Gourmet, Longwary Foods, Pronto Software (commended), Southern Cross Systems (highly commended), Tyro Payments