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No festive joy for struggling retailers

BY JARED DICKSON

The days when Santa Claus would ride to the rescue of struggling retailers are gone as they feel the arctic chill of banks and financiers concerned about ballooning debts and flagging sales.

Recalling Dick Smith's failed attempt to generate sales with deep discounting in the lead up to Christmas last year and now wary of challenging market conditions, banks are reviewing debt exposures in the retail sector.

Just as there is no Santa Claus behind a desk in banking headquarters, it is unlikely that the administrators of Payless Shoes are in for much Christmas cheer after the chain has collapsed for the second time in three years.

Ferrier Hodgson has advertised for urgent expressions of interest for the business and assets of Payless Shoes with a lodgement date of yesterday (Tuesday), less than a week after the chain's failure was announced.

The Payless Shoes brand may have some value, although its use in Australia might be constrained by the US retailer that acquired the local retailer in a deal with administrators in 2013.

Payless Shoes has 130 stores throughout Australia and an online retail site, but it is likely that expressions of interest would be limited to cherrypicking of certain stores rather than the entire chain.

Ferrier Hodgson has yet to comment on the reasons for the financial difficulties at Payless Shoes, but accounts lodged with the Australian Securities and Investments Commission (ASIC) revealed losses of $10.2 million and $10.8 million for FY2014 and FY2015 respectively.

The US owners, Payless ShoeSource, closed around under-performing stores in Australia and revamped merchandise ranges, adding new brands such as American Eagle, Disney and Champion, but were unable to improve trading.

Payless ShoeSource is owned by private equity firms, Blum Capital and Golden Gate Capital.

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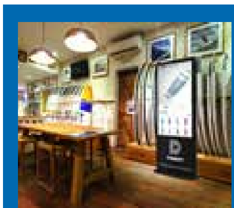

FROM THE SOURCE: Lou Jardin, Spar Australia

BY MATTHEW ELMAS

BIO: Lou Jardin

A retailer of more than 40 years, Lou Jardin has worked for more than a decade as a regional manager with Coles and was CEO of IGA for 13 years, before leaving for Spar Australia in 2010. Following his departure from IGA, Metcash pursued court action that saw Jardin tied up in legal battles. Ever since, he's been on the road to repair as managing director of Spar Australia's independent grocery network.

COMPANY PROFILE: Spar Australia

Spar has been operating an independent grocery network in Australia since 1994. In 2010, Jardin Investments took over and proceeded to move the business to its current position, with 129 stores and $254 million of annual retail sales. However, the business has been struggling in recent times, recording a $25 million sales slowdown in 2013, despite opening 19 new stores. Spar is currently undergoing an internal restructure designed to reposition the business moving forward.

***Inside Retail Weekly*: How are things tracking since you got things going at Spar a few years back?**
Lou Jardin: I've been involved in retail probably 40-odd years and without a doubt, this has been the hardest thing I've ever done. Obviously, there are a lot of circumstances around why this has been a very difficult exercise. I'm not sure if you're familiar with the history of how I became involved with Spar and what happened.

IRW: I'm familiar from a public information perspective...
LJ: Essentially, I acquired the business in July 2010, ended up in some serious litigation with Metcash out of a restraint of trade contract that they supposedly had. We obviously had a big trial that ended up as a week in the Supreme Court and eventually, I got access to the business in December 2010. From then on, the business was basically two weeks away from going into receivership.

When I became involved, the banks basically gave me a honeymoon period to settle the affairs and to get the business structured and in order. I suppose that's when the rollercoaster ride started.

IRW: How has progress been turning things around since then?
LJ: The first two to three years really sucked up a lot of resources because I lost a couple of major customers in the process of

everything that happened. I had to deal with the cost structure within the business and renegotiate a couple of contracts within how we operate. The first two to three years were extremely tough.

Then the next couple of years were about reinventing the business, basically putting all the fundamentals and structures in place. There were a couple of things that I suppose were fairly sound when I took over the business and I was able to build on those. We had to go through a couple of iterations. Basically, that took five years and essentially the last 12 months have been about where the formulas are now starting to come together.

IRW: Spar has been undertaking an internal restructure too. What's happened in terms of that?

LJ: The process that we've embarked on has been quite a long journey in terms of getting it to where we want it. As time has moved on, I've worked at streamlining our business and the management structure and the way we interact with our suppliers. What we've been trying to do isn't rocket science, but we've focused on our business and bringing more skills to bear in terms of having a much more focused approach.

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IRW: You're moving the business to its next stage. What are the primary factors driving that movement?

LJ: The big one has been systems and operating processes and putting a lot of systems in place to build that solid base that can take the business forward. As I said, we had a reasonably good solid foundation when I took over but it needed direction and focus.

The other big issue was from a merchandise perspective. Essentially, we were over ranged by far. We had to work through a process of actually streamlining that range. We've become more focused in terms of how we operate, and that's taken a number of years because we're not a Coles or a Woolies where any decision that we make actually impacts at the retail end straight away.

Obviously it's a slow process in terms of engagement with suppliers and then getting them to buy into a process before taking it to the next level. From that perspective, we had to obviously work our way through those key fundamentals of the business. Then, from a warehouse logistics structure perspective, we streamlined logistics, improved productivity – all the boring stuff that actually makes a business work.

IRW: With players like Aldi coming into the market, we've seen format rethinks from Metcash and especially FoodWorks. Where do you think the independent grocer side of the market needs to go to survive?

LJ: Retailing hasn't changed to any great degree in 40-odd years. Essentially, it relies on a couple of key ingredients that make it all happen. Certainly the product, ranging and operations become more sophisticated as new technologies come into play and obviously lifestyle changes have happened.

But a retailer is still a retailer. A retailer still has to be behind the counter. They've still got to wear the apron, they've still got to serve their customers and they've still got to present their store in a reasonable sort of fashion. To my mind, the key ingredient is the quality of the retailer, their skill level, etc. Essentially, if you had brain surgery, you wouldn't go to a first year doctor. You need to go through a progression to get to the point where you can actually say, 'I'm comfortable in what I do and how I do things.'

IRW: Do you think independent grocers need to look to differentiate their offer and how should that be approached?

LJ: Essentially positioning your offer and actually setting it up as a unique point of difference is obviously critical in terms of differentiating yourself from your competitors. All those factors come into play in how you do that – the ability to actually position your product range, having a pricing level that is not at a disadvantage and having a range of product that is compelling at that point in time. There's no question, each of the businesses has a distinct DNA in terms of how they operate that's actually critical in terms of positioning yourselves and differentiating your offer.

IRW: We've seen Spar International become successful in Europe for their ability to create really localised offers that really hone in on cultural food offerings. Do you think the path that Spar has taken in Europe could work here or do you need to do something different to work in the Australian market?

LJ: I've been fairly fortunate that I've been exposed to a lot of those international businesses and I'd go as far as to say that some of the Spar operations in Europe are almost at world's best practice, but it doesn't come overnight.

Essentially, to be able to position your product offer to give you a clear distinct advantage in the marketplace takes some time. I mean, if I look at Austria in terms of their product range, it's probably the most sophisticated that I've seen. They have a very clear differentiated house brand offer through different product categories and they're very good at what they do. To be able to get to that level of sophistication isn't something that you can just switch on overnight.

If I move into other countries, I get exposed to the philosophies that drive each of those businesses and how they interact with how they position themselves. In Austria, Spar actually operates in the heartland of Aldi and has successfully grown their profitability and top line for decades alongside them.

IRW: It's possible!

LJ: Indeed, it's a case study that proves that you can actually do it. You travel through some of those Austrian towns and they are directly opposite a Lidl or an Aldi and have been incredibly successful with independent operators and company-owned stores. Then you go back to Ireland and the UK, where they tend to specialise at the convenience end of the smaller type stores. Some of the franchisees in the northern UK have specialised in food-to-go and food court operations, investing heavily in commissaries. They've done exceptionally well at that. I've spent time with of each of the founding owners of these businesses and seen what they've done and how they deal with their business, but you get to a point where the momentum carries itself.

obviously see opportunity because they've actually broadened their range and appeal in the marketplace. To my mind, with their resources, they've been able to engage with the Australian consumer quite successfully and their model will continue to grow, there are no questions about that. That's going to put a lot of pressure on the other players. Whatever growth you have in the market, just by their sheer numbers and sheer growth, Aldi is obviously going to dictate things and capture a big part of that growth.

IRW: Is it silly trying to compete with Aldi on price? Do you think that you need to look at competing on another factor?

LJ: There is a point where price is important and it's about asking what that point of resistance is and each retailer needs to determine what that is. As you know from your own buying habits, if you buy a bar of chocolate, you know that the local corner store is $5 or you could drive a couple of kilometres and pay $2.50 at a supermarket.

But sometimes you just say to yourself, "Well, hang on, I'll just pay the $5", because it's that sort of decisionmaking process. You've actually got to determine where you are, what your position is and where that point of resistance is. Price is definitely important. If you look wide of the ballpark, it's obviously going to hinder your ability to actually grow your business, simple as that.

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IRW: There have been tensions lately between suppliers and grocers. Dick Smith made some waves a few weeks back claiming that Aldi would kill Australian grocers. You obviously see a place for Spar within the future of the Australian grocery market. What is that going to look like?

LJ: There's no question that if you look at the 15 or so years that Aldi have been involved, there's been a slow progression to get to the point where they are and they

IRW: You mentioned the Schwarz Group is doing a feasibility study for Kaufland in Australia at the moment. Spar has implemented hypermarkets in Europe successfully. What are your thoughts on the viability of the model here and do you think we'll ever see a Spar hypermarket in Australia?

LJ: The only thing that's prevented hypermarkets from growing in this country is regulation around town planning and obviously how difficult it is to be able to grow outside your normal space. Our retail tends to be very heavily concentrated because of the planning laws around that. If that deregulates down the track, I'm not saying that it's going to create an explosion, but obviously Bunnings and Dan Murphy's have been very successful with big box operations and Costco has obviously been successful in that area of operation, so who's to say that the Australian consumer is different from the American or UK consumer? They need to get around that. I know that there's a strong push to deregulate some of those things. I'd say the council is resisting any major push to deregulate the zoning regulations.

IRW: There's been a lot of chatter about supplier relationships lately. How are you approaching your relationships with suppliers during a period of grocery deflation?

LJ: You have different suppliers and approaches to all of them, and we've been very fortunate in that the majority of suppliers have actually been very supportive of Spar and continued to work hand-in-hand with us to see us grow and develop.

But every now and again, you get a supplier, for whatever reason, whether it's coming from the top or middle management level, who suddenly becomes totally unreasonable. We've had to deal with those sorts of cases and I suppose to a certain extent, there are a couple of instances where you've got to say that their activity is quite predatory.

On the one hand, they complain quite clearly that Coles and Woolies are batting them around, but they don't have any problems pushing the small guys around either. You've got this real dichotomy in terms of how they operate. There are some segments of the market that are very, very heavy-handed in terms of how they operate and the business ethics are sometimes questionable. But by and large, the majority of them have been very, very supportive of Spar through its development phase.

IRW: Private label is a big part of what these discount guys do. That includes Aldi, Costco and soon Decathlon as well. Decathlon isn't a grocer and Costco doesn't really fit into a single category, but private label is becoming increasingly important. Do you see Spar expanding its private label offering?

LJ: Certainly, world retail trends indicate that the drive into private label is a key requirement of most retail businesses. All you have to do is look at Loblaws in Canada and Tesco. There's a drive towards private label internally with all the retail businesses in terms of how they operate, so I don't think that's going to slow down any time in the future and I think if anything, it's probably going to accelerate.

We've certainly seen the way Coles has re-engineered their offer and moved private label and you're seeing Aldi do it too. I can only see that expanding and actually gaining momentum down the track.

We've operated with a private label program with over around 500 SKUs and at the moment, we're moving more and more into Spar-branded products, essentially running on the back of what Spar International can provide for us. This has given us enormous buying synergies. We can buy product out of Europe, land in Australia and actually give the retailer enough margin.

Lou Jardin will be speaking at Inside Retail Live. Visit: insideretail.live IRW