On a wave, or in denial

By Sasha Planting

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Truworths is boringly predictable; Woolworths is in denial and Shoprite is riding a wave. Though the past six months have been a rough ride for the SA consumer, all these retailers managed to grow earnings.

Truworths did so by sticking to its knitting. “We are always frugal — in good and bad times,” says CEO Michael Mark. “We have never changed our strategy.”

Woolworths did so by cost cutting, and a one-off charge from its financial services business.

Shoprite has benefited from inflation and government grants, which have sustained spending.

Truworths, SA's biggest listed clothing retailer, grew headline earnings per share 16%. Sales rose to R3,3bn, up 14%, after the company opened 17 Truworths, 18 Identity and two Uzzi standalone stores. Without these openings, sales grew 7% on product inflation of about 6%.

“Aggressive store rollouts have worked well for Truworths,” says Gryphon Asset Management analyst Abri du Plessis. “But the like-on-like number tells you that going forward there is no growth anywhere in the system.”

However, by not changing its core strategy, the retailer has maintained a trading density (sales per m² of floor space) that is well above the industry norm. It does this by being clear about its target markets, getting its fashion right; keeping its stock turns up and managing its inventories.

Woolworths, on the other hand, had a torrid time. It reported an 11.5% rise in first-half diluted headline earnings per share. Profit before tax and exceptional items grew by 18.1% and retail turnover was up 8.1% to R10,5bn. But, comparing like-for-like sales reveals clothing and general merchandise decreased by 0.6% and food sales by 2.6% (growth of 9.5% less inflation of 12.1%).

“The Woolies guys are in denial,” says Du Plessis. “To believe they are in the only pocket that is struggling while the others are in a sweet spot is naive.”

The company has been cutting prices. “Prices are more competitive and we are better positioned to cater for our customers' needs,” says CEO Simon Susman.

But Nedcor securities analyst Syd Vianello is also not convinced. “Do the Swiss watch manufacturers decrease their prices when the cycle for those at the top end of the market is weak?"

Vianello's concern is that the brand will be prostituted. "By lowering prices do they fiddle with quality? Were prices too high in the first place? Is this acknowledging that margins were too high?"

In its apparel business the company has done away with its premium range of W branded clothing. Instead it will offer a new classic range called Trenery, designed by Australian retailer Country Road.

"They have an apparel business that is a stuff up," says Vianello. But management is allowing retail director Andrew Jennings the flexibility to do different things. "These are risks management may not have taken but which they are prepared to entrust to him," says Vianello.

Supermarket group Shoprite continued to grow its market share and benefit from economies of scale. Headline earnings per share for the six months to December rose 43% to 184c, trading profit rose 38% to R1,4bn and turnover increased 27%. "Yes, inflation at the bottom end of the market is supporting these results," says Vianello. "But its efforts are also being rewarded in other areas: it has taken years to turn around Checkers, but this business is now taking market share in its market."

Despite positive trading in the first seven weeks of this year, all three retailers have warned that trading conditions will deteriorate through 2009.

"It is not prudent for a company like us — which is exposed to the consumer mass market — to ignore events in the world. We do not see the first seven weeks' trading as a sign of sustained change," says Truworths' Mark.

Shoprite's board warns that the slowdown in world trade and reduced exports will lead to job losses, with a negative impact on the business.

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