A sneak peek into Woolworths’ strategy

By Michel Mack

On 21 August, Woolworths CEO Ian Moir gave a number of shareholders, competitors, media and students insights into Woolworths strategic focus, challenges and future plans. The share price is high and their offer is unique, but Moir aims to take the business to a new level and become the number one clothing retailer in Africa.

Why is the share price so high?
Moir was once asked this slightly awkward question in the elevator at the Woolworths head office. In many ways, the figures speak for themselves. Over 60 new stores and 64 000m² of trading space were recently added and the Country Road and Witchery acquisitions have added a lot of value to the business.

“We have a compound annual growth rate of 10% and an average annual growth rate of 28%. Over the past 52 weeks, our sales have grown 23.1% and our expected headline earnings per share (HEPS) is 25-30% higher than the previous year,” says Moir. The full results were released the following week and can be viewed on supermarket.co.za.

The company also positioned itself well in terms of earnings per share (EPS) and ROE growth.

“If we want to continue to perform, it has to be based on growth,” says Moir. South African consumers are becoming wealthier and yet Woolworths major competitors are struggling. “If you can’t take share from your competition while they are struggling, you don’t deserve it,” he continues.

He cites three major reasons for the company to work on its growth. The opportunity is there and the threat to conventional retail is constantly increasing. Growth also creates scale and enables businesses to operate more responsibly. To date, the group has saved R189 million in operating expenses through its Good Business Journey.

Loyalty is dead
The single biggest change that is coming to the retail industry is the massive growth of the online channel. “Four years ago, online was minute with 1% share of sales and today it contributes 7%. Online is changing the face of retail and it will never be the same retail that we have loved for decades. Physical retailers should be frightened. Yet they have to embrace it instead of fighting against it,” says Moir.

Woolworths’ clothing sector will face its new competitor, the Swedish clothing giant Hennes & Mauritz (H&M), that has now signed its first lease in a South African mall and will open its first store in 2015.

Customers are spoilt for choice like never before and in many countries they can order online, receive the goods within four days and often pay less than they would at any local physical retailer.

The online presence of Woolworths’ Australian subsidiary Country Road went from zero to turning around AUS$50 million annually within just two years, highlighting the importance of the channel. Woolworths’ new website went live in August 2013 and is set to drive the retailer’s online business.

Moir says that Woolworths has the best fresh produce offering in the market and will continue to improve it to retain that position.

“Since the new leader is dead! And so will the average retailer be. Customer expectations have changed. They expect seasonal products out of season, for example, and you have to give them what they want,” says Moir.

How that will be achieved
Moir noted six major strategic objectives that Woolworths has set out to secure its future growth and position in the market.

- Enhance customer loyalty
- Become a big food business
- Become the leading fashion retailer of the southern hemisphere
- Continue to build its business in the rest of Africa
- Become an omni-channel business
- Offer customers simple, convenient and effective financial services

Woolworths currently has three million active cardholders, enabling the group to track 67% of all sales and WRewards has become a fundamental part of the C&GM and food strategies.

The data gathered also allows the company to better understand and communicate with its customer base. The group differentiates itself here through instant and targeted rewards.

Moir points out that the group’s clear objective is to grow its range to offer customers a complete shop and capture more month-end shoppers for its Woolworths Food business. The group now achieves a 20% share in national fresh...
produce sales, 20% of prepared food sales and just 2% of grocery sales. “Pick n Pay and Checkers currently have a bigger share of LSMB-10 than what we do,” says Moir.

He says that Woolworths will bring in more brand products, increase SKUs and continue to increase bulk. “We will enhance freshness and improve our price positioning. When we introduced bulk, many people thought that this concept is not applicable to Woolworths’ customers. The opposite proved to be true – the more bulk we offered, the more we sold. Sales of smaller pack sizes remained constant, so we generated new business,” says Moir.

This will also help Woolworths to continue to establish itself as a food authority. “Once a customer approached me and said that she just wanted to thank me, because Woolworths knows what she wants when she doesn’t. Understanding customer trends is so important,” he says.

Changing perceptions

Woolworths is working hard at changing its image as being largely too expensive. “For many years there has been a perception that Woolworths is more expensive than its competitors and previously this has been true. We have to ensure that we are price competitive,” says Moir. He adds that Woolworths is believed to have the best fresh produce offering in the market and will continue to improve it to retain that position. At the same time, they will grow the long-life and grocery sections to achieve higher basket sizes.

In the long-term, store formats are to become bigger. Existing stores are to be extended and new stores will mostly be larger format stores. Promotional activity and loyalty drives are to be increased.

“We have to offer more value more often and, with increased capacity through bigger stores, we will be able to stay ahead of the game,” says Moir.

Woolworths also managed to cut the number of underperforming stores down to a single store.

Fashionable Africa

To become the leading fashion retailer in the southern hemisphere, Woolworths will have their hands full competing with Edgar’s, H&M and the online sector. It has changed its supplier base to having a number of smaller suppliers rather than a few large ones. “We have shortened our route to market to 5-7 weeks from previously up to 11 months for the majority of our goods,” says Moir. This will provide the opportunity to quickly react to market trends.

Woolworths wants to own and grow its classic, older customer base. “Previously, we have not done this well enough,” he says.

The group now also generates 50% of its sales from a black customer base. He continues that Woolworths will deliver better value by investing in price, which is a necessary step to be able to compete with Edgar’s head-on.

The group will continue to drive its sales across the southern hemisphere. “Unlike Shoprite, we don’t believe in expanding into north Africa at this time – instead we focus on Sub-Saharan Africa,” he says. He continues that its three key markets outside SA currently are Botswana, Namibia and Kenya.

Woolworths recently acquired a franchise in Botswana. “We need to get critical mass and have more focus on the region and gain a better understanding of the store profile and the flow of goods,” he says.

Going forward, Woolworths also plans on introducing Witchery and Mimco to South Africa. At this stage, Woolworths is not moving any foods into Africa. “You cannot recreate the Woolworths brand in Africa and if you can’t do it right – don’t do it,” he concludes.