Stores need to offer better value: Goyder

ELI GREENBLAT
RETAIL

THE chief executive of Wesfarmers, Richard Goyder, is yet to see change in fragile consumer sentiment but does not blame shoppers for remaining cautious amid the global economic malaise that has shrunk superannuation savings and cut home values.

He said retailers such as Wesfarmers, which owns Coles supermarkets, Bunnings hardware and Target and Kmart, would need to work harder to attract customers by offering better value.

Meanwhile, the best sales performance for Target and Kmart in years has provided further evidence that the government's cash splash to compensate households for the carbon tax has found its way into clothing, shoes, toys and housewares.

Mr Goyder, speaking yesterday after the release of Wesfarmers' full-year sales, said he had not seen a shift in consumer confidence from the start of the year and was not expecting an improvement in the near term. "I don't think we have seen much change in the external environment over the last six months," he said. "Our base line would be that things will tick along as they are now."

Wesfarmers said total sales at Coles rose 6.1 per cent to $33.7 billion, as food and liquor sales rose 4.6 per cent to $26.18 billion. Comparable food and liquor sales were 3.7 per cent higher for the year. For the fourth quarter, same-store sales growth rose 3 per cent to $6.5 billion, beating Woolworths for the 12th straight quarter.

> "I understand why people are being cautious."
>
> **Richard Goyder, Wesfarmers chief executive**

But depressed consumer sentiment concerns retailers. A succession of interest rate cuts as well as billions of dollars in investment triggered by the mining boom has not been enough to give consumers more confidence.

"I understand why people are being cautious," Mr Goyder said. "We have been through a period in the global financial crisis where, and subsequently, you have had asset values fall, businesses tighten up on a whole bunch of things, house prices over time that declined a bit and superannuation funds where equities have come back.

"I do share with others the view that the Australian economy is in relatively great shape and I'd rather be doing business in Australia than most other places in the world at the moment."

Target and Kmart were flat for the year, but in the fourth quarter sales at Target rose by 2 per cent to $915 million, with Kmart up 2.2 per cent at $927 million.

On a comparable store sales basis, Target sales rose 4.5 per cent and those at Kmart 2.1 per cent.

Bunnings' full-year sales hit $7.15 billion, up 5.6 per cent, with quarterly sales 4.1 per cent higher at $1.62 billion. Comparable store sales growth for the quarter was 2.9 per cent.

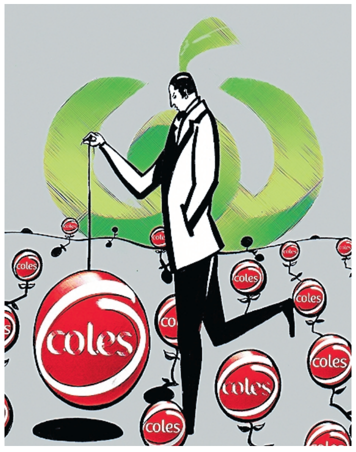
Coles still closing the gap on rival Woolworths

MALCOLM MAIDEN

Heavy food price deflation masked how well the Coles and Woolworths supermarkets fared in the year to June, but the boss of Coles, Ian McLeod, is still closing the gap.

The Wesfarmers-owned Coles said food and liquor price deflation was 4 per cent in the final quarter and 2.9 per cent for the year, and Woolies said on Monday that supermarket price deflation was 4.4 per cent in the June half, and 3.7 per cent in the December half. Actual sales volumes expanded by 7.5 per cent-plus in the year to enable them to report headline sales rises of 4.6 per cent and 3.8 per cent respectively.

Coles generated an 8.6 per cent volume lift in the final quarter, and Woolies a gain of 8.1 per cent, powerful numbers that show they are taking market share from the smaller chains – but they are doing so in different ways. At Coles, McLeod has grown volumes by improving retail sales intensity, or sales per square metre. Woolies' boss Grant O'Brien has relied more on opening new stores.



Coles had 750 supermarkets in 2008. It actually owns nine fewer now, after opening 19 new stores and closing 11 in the financial year just ended. Woolies had 780 supermarkets in 2008. Today it has 872, a 12 per cent increase. It opened 38 new supermarkets and closed only six in the year to June.

The different styles show up in the "same store" sales numbers. They eliminate growth from new stores or expanding existing ones and give a read on the underlying sales trend.

The expansion of the Woolies store numbers and selling space shows up in a gap between headline sales and same store sales: 2.2 percentage points in 2008-09, 1.8 percentage points in 2009-10, 1.3 percentage points in 2010-11, and 2.7 percentage points in the latest year, when the supermarket rollout accelerated. The gap between headline sales and same-store sales for Coles was similar to Woolies in 2008-09 at 1.6 percentage points, but it closed to 0.6 per cent in 2009-10, hit zero in 2010-11 and widened to 0.9 percentage points last year as McLeod began opening large "superstores".

Coles has trod its own path partly by design and partly out of necessity. McLeod has been culling underperforming supermarkets. He also knew from the moment he arrived in 2008 that he needed to renovate the chain, to boost sales per square metre.

The amount available for store renovations and new stores has been rationed until now, however, because he's also been playing catch-up with Woolies by investing to pull Coles's cost base down and renovate the supply chain.

This is work Woolies completed a decade ago but at Coles the heavy lifting behind the supermarkets is finally done. McLeod can allocate more of his capital expenditure budget to new stores and renovations and is aiming to expand the chain's selling footprint by 2 per cent a year.

As this happens, the gap between Coles's headline sales and its same-store sales will expand, just as it has at Woolies. McLeod also has work to do in liquor retailing, where Woolies has a clear lead.

As he expands the network and accelerates the refurbishment program, McLeod will add sales that are inherently more profitable than they would have been had he pulled the trigger before investing in improving profitability, however. With the renovations only a third done, there looks to be considerable upside.