The smartshops

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In a slowing market, the successful retailers grow through smart thinking and ambition.

Over the past eight years, strong consumer spending has produced booming sales and profits for retailers. But a cooling market, an interest rate rise in March and higher petrol prices have caused trading conditions to turn. Many retailers are struggling to maintain, let alone accelerate, growth.

Medium-size listed retailers, such as Country Road and Retail Cube, produced mostly disappointing results for 2004-05, missing sales targets and profit forecasts. Official statistics are also ho-hum: sales grew by 0.6% nationally in August, after falling 0.1% in July.

Economists' forecasts for retail in the coming year are not optimistic. A director of Access Economics, Chris Richardson, forecasts that retail sales, which grew 1.6% over the year to June 2005, will grow just 1.8% in 2005-06. But some retailers are exceeding industry expectations. In the following pages, BRW profiles nine retailers that are growing strongly. To keep growing, they are finding new markets and taking market share from their competitors.

Some, such as Sumo Salad, are fledgling businesses capitalising on a new trend, in this case that for healthy fast food. Others, such as Loot Homewares, are successful concepts that have the scope to expand nationally. These retailers are confident about the growth of their businesses despite slowing consumer demand. To forge ahead, they are relying on good products and merchandising, knowing their customers, and streamlined supply systems.

All these retailers have a niche. Denis McFadden found his more than 10 years ago: providing no-frills haircuts at low prices. His business, Just Cuts, has grown through franchising to 142 stores across Australia.

Sophisticated supply chain processes are becoming more important for retailers,

especially in a tighter market. The nine companies profiled have worked on their supply chains to reduce costs. Sumo Salad's co-founder, Luke Baylis, believes it is the relationships the small salad-bar chain has developed with suppliers that have enabled it to grow. From the start, he convinced them that the chain would eventually be much bigger, and as a result has extracted good terms and high-quality produce from them.

Peter Johnson, the general manager of Cotton On Clothing, says supply chain management has been critical to the company's success. As a fast-fashion chain of 80 stores, Cotton On Clothing makes weekly drops of new clothing into stores, so customers return to find something new. The company is not setting fashion trends, it is following them. But the supply arrangements are so efficient that it can very closely follow fashion as it develops over the season.

Loot Homewares has dealt with supply arrangements for its stores by handling them itself. The founders started as wholesalers, and most of their customers were single-store or two-store operations. They ventured into retail when they saw the competitive advantage of operating a chain. Loot Homewares designs and buys its products in Asia, and most are exclusive to the chain. When the buyers do a good deal, they pass it on to retailers, rather than capitalising on it themselves, enabling the chain to grow.

These retailers are also great merchandisers and have concentrated on creating an experience for their customers in their stores. VitaminMe, a new vitamin and health-supplements retailer founded by Tony and Richard Uechtritz and Philip Weinman, is based on Richard Uechtritz's successful JB Hi-Fi model. Products are packed on shelves that reach to the rafters and the concrete-floor store has a discount style, all designed to make consumers feel they are buying a bargain.

At Cold Rock Ice Creamery stores, the fun for customers is seeing a chocolate bar being crushed on a refrigerated granite bench and mixed with the icecream of their choice. The owner of the Australian rights to the brand, Norm Hunt, says: "We have a bit of theatre in our stores."

Consumers' growing preference for large stores offering many products is fuelling the growth of some of these retailers. Macro Wholefoods, which has an expanding chain of natural and organic food stores, is taking the organic grocer concept to a new level. Macro stores are big and offer up to 12,000 stock items. Pierce Cody, the chief executive, says the aim is to be a one-stop shop for consumers looking for an alternative to regular supermarkets. Macro offers "everything from toilet paper to meat and pet food".

Building larger stores is also behind much of the growth in Betta Stores' sales. It was struggling to find franchisees for its Betta Electrical and Chandlers brands with sufficient capital to open stores in capital cities and successfully compete with the large-format Harvey Norman and Good Guys stores. So it has started opening large stores itself.

The retailers profited below are growing stongly. Some have been established for more than a decade, others just a few years or months. What they have in common is a smart concept and an ambition to grow quickly in a flagging retail market.

VitaminMe

Chief executive: Tony Uechtritz

Stores: One

Revenue: Not disclosed

Growth strategy: More super-stores and online distribution of a wide range of branded products

Bottles of vitamins and tubs of sports supplements are stacked to the ceiling in the first VitaminMe store in Elizabeth Street, in Melbourne's CBD. Hand-written signs in red and black, narrow aisles and shelves jam-packed with products give the shop a discount feel. The owners, Philip Weinman and brothers Tony and Richard Uechtritz, have modelled the concept on Richard Uechtritz's JB Hi-Fi electronics shops.

VitaminMe has entered a market dominated by supermarkets and chemists but is otherwise fragmented. It wants to be Australia's leading independently owned vitamin and sport nutrition retailer by offering a large range of brands and quality at the lowest possible price. Weinman says: "We are going to position ourselves as a discounter, but it will be almost impossible to be the cheapest on everything. We can do that with perception with our customer, through merchandising, through store layout and signage, like JB Hi-Fi."

VitaminMe has been trading for less than two months and Tony Uechtritz says sales targets are already being exceeded. "Sales have been very, very good." Six more stores in Victoria are in the pipeline, before expansion to other states. Each store is expected to turn over $5-10 million a year. There are also plans to start retailing online within 12 months. Weinman and Uechtritz have hired a sales staff with naturopathic or nutrition training as well as sales skills. They believe this is critical to providing high levels of customer service.

Weinman decided against franchising because the owners do not need the capital to expand and want to retain control. "I've never franchised because every time I've spoken to franchisees they are unhappy," Weinman says. The long-term ambition is to take the stores nationwide and perhaps overseas. "If the concept works well, if we get it right, [we will] take it Australia-wide. And then if we look overseas, we might go for an initial public offering."