

Strategies for success in tough trading conditions

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The current economic climate is challenging. Significant increases in energy, fuel and food costs, coupled with falls in exchange rate are placing increased pressure on consumers. People have less money for discretionary spending, which impacts restaurants, retail and entertainment businesses, creating an even tougher trading environment for them.



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A retail slowdown is confirmed in the June 2013 Retail Trade Sales report released by Statistics South Africa. This details that total value of all retail sales for June 2013 were only 1.9% higher than June 2012; which does not even reflect growth based on inflationary increases.

However, whilst retail and restaurants overall struggle, some leading retailers and restaurant chains are reporting significant growth. How are they doing it?

Clem Sunter, a renowned South African business leader and strategist, identifies three strategies for business success in tough trading conditions.

1. **Value for money.**

Providing something that offers a higher perceived 'value for money' will always result in a higher proportion of a consumer's spending.

2. **Innovate.**

Creating something new that people want, will always generate additional turnover.

3. **A cheaper alternative.**

Offering a reasonable alternative, at a lower cost, will attract additional customers.

In this article, we will explore a few South African examples of how value for money strategies can deliver success, despite the difficult economic conditions.

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In their latest financial results, for the year ending June 2013, Woolworths, reported a 23% rise in overall sales - significantly higher than retail norms. Interestingly, a key difference for Woolworths recently has been a strong focus on value for money. Initiatives like the "4 eat in for under R150" campaign, product bundling promotions (3 for 2), special offers and additional discount savings for store card holders and have generated a 15.4% increase in food sales alone.

Ian Moir, Woolworths CEO states "We are getting more people to shop with a trolley and not a basket" and adds "becoming a big foods business is very much at the top of our minds".

Another excellent example of value driven strategy is the Spur Steak Ranch family card loyalty programme and linked special offers, such as the "unreal breakfast deal". These campaigns have resulted in increased customer volumes, which have contributed towards a 16.5% revenue growth. The loyalty programme in particular has proven extremely successful, with c. 1.4m card holders and turnover on the family card accounting for almost 30% of local restaurant turnover. It is particularly interesting to note that this value for money strategy has resulted in card holders spending 20% more on average than non members.

Group CEO, Pierre Van Tonder highlights that growth in Spur was driven by "the continued success of the breakfast and weekday promotions, and increased demand for the brand's quality, good value offering."

"Value is the new black" states Kevin Hedderwick, Famous Brands CEO. "The competitive trading environment and general economic downturn has trained consumers to look for value - which they perceive as price, quality, relevance and convenience" In their latest first quarter results (to May 2013), Famous Brands delivered a 16.8% increase in group wide franchise sales.

Economists and analysts are united in agreement that there will be further tough times ahead for South African consumers. As a result, consumers have become more discerning about where and how they spend their money, and are demanding innovative offerings, greater value for money or cheaper alternatives. In these conditions, it will be the businesses that act smarter that will survive and prosper, whilst others will struggle and fail.

In challenging times, it is imperative that business owners invest in their business to address the changes in consumer expectations.

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