

# Fashion retailers look abroad as golden era of consumption frays

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The rising middle class is so last season. SA's dwindling economy and glacial employment prospects has seen the consumption boom taper off, with fashion retailers such as The Foschini Group (TFG) and Woolworths casting their nets offshore.



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Clothing sales have in recent years beaten the pants off other retail categories, spurred largely by consumers' eagerness to show off their new-found middle-class status. But with stunted income growth and tighter credit extension controls, the golden era of clothing retail and a surge in middle class growth in SA seems to be over.

"With about 2% projected growth being all we can seem to muster here, guys are looking for different avenues," Sasfin Securities senior retail analyst Alec Abraham says.

Until last year rest of Africa expansion was the flavour du jour for consumer-facing groups but high rentals, poor infrastructure and red tape have hampered growth.

Truworths is reducing the size of its stores in Nigeria and reconsidering its merchandise offering after reportedly making losses in the country where upmarket player Woolworths has already exited.

TFG plans to keep Markham in the oil-rich nation, and introduce Fabiani and G-Star, but the group may pull its Foschini

brand out.

## Difficult playing field

"It's damn difficult in the rest of Africa. Growth cannot get any faster. There is an added problem - two particular countries where growth has been unbelievably good over the last 10 years because of oil - Nigeria and Angola - are now going to struggle because of the oil price. What retailers are getting out of Africa now is the best they're going to get for a while," independent analyst Syd Vianello says.

Moving into a more developed market would then be the iron in the fire that clothing retailers need when there are expectations of mediocre growth in their home market and tepid growth in the rest of Africa.

"The move into international markets is not necessarily to look for additional growth, because developed markets are not high-growth markets, they are very competitive and it's hard, but you do get scale and a nice rand hedge," Abraham says.

## Woolworths big move down under

Woolworth's R23bn takeover of Australia's David Jones was the first big move by a local player into a more developed market, and not without its own struggles.

The clothing play has given Woolworths clout - 1,151 stores across 16 countries. An expanse greater than that of northern hemisphere department store counterparts Macy's, Nordstrom or even Bloomingdale's.

Woolworths is set to revive the David Jones business, where profits have declined. It will introduce local labels such as Studio W and denim brand RE: into David Jones stores by August, and is increasing floor space for its Mimco and Trenery labels.

Woolworths is also reviewing David Jones' loyalty programme and merging its distribution into its new Country Road 22,000m<sup>2</sup> distribution and fulfilment facility in outer Melbourne.

In Australia online shopping has been gaining traction over brick and mortar outlets, with the department store concept losing vogue. The expansion of fast fashion titans Zara, H&M and Uniqlo has necessitated the move towards stronger buying power and quicker stock turnaround. Their billion-dollar businesses are built on responsiveness - dropping the latest catwalk-inspired clothing through agility of supply chain.

"It's going to either play out as a huge win for Woolworths or a huge disaster," Vianello says.

## SA hits UK's high street

By contrast, TFG has made a smallish (R2.6bn) buyout of UK fashion group Phase Eight, which sells evening wear and bridalwear.

And it will not be the only local player on the UK's high street. Pepkor UK, the investment vehicle setup by former Asda CEO Andy Bond and South African retail titan Christo Wiese, recently announced its first investment in the UK - Pep&Co, a discount fashion chain targeting mums and kids. An initial 50 stores will open by July.

Speculation is rife that Pepkor UK's next move will be a buyout of BHS, the struggling department store chain owned by Topshop boss Philip Green. Several recent bids for BHS are said to have piqued Green's interest, with rival discount fashion chain Primark, and supermarkets Aldi and Lidl potential buyers too.

With more than 185 stores BHS has faced fierce competition on the high street again as foreign entrants and ecommerce eat away at sales. Despite this, London's The Telegraph reports that BHS's property assets are worth between

£100m-£200m.

Perhaps cash-rich Truworths, which has avoided foreign moves since its disastrous foray with Sportsgirl in Australia in the late 1990s might have a change of heart under the leadership of Jean-Christophe Garbino. The head of cheap 'n chic French retailer Kiabi takes over at the end of March from long-standing boss Michael Mark.

Source: Business Day

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