How SA's retailers can overcome stunted growth forecasts

By Rod Salmon

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Retail is a fast-paced, cut-throat industry; businesses that are not meeting their customers' needs as and when they require, can quickly find themselves sidelined, while more responsive and innovative competitors fill the gap. In South Africa, which is currently a low growth market, the above challenges are being felt acutely by retailers.

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With additional obstacles posed by negative consumer credit growth largely as a result of a decline in credit extended on store cards, there is a risk of South African retail stocks depreciating even further. Coupled with an increasingly competitive environment, caused by new international entrants and consumers with less disposable income (and therefore less spending power), there can be little doubt that the retail trading environment will continue to be tough for the foreseeable future.

What poses a particularly interesting conundrum for me right now is the number of retail managers that believe the cycle will turn, and that growth similar to the 2003-2013 period will be achieved. Based on our research though, what we are seeing is structural – as opposed to cyclical. Change is being driven by a demographic shift that has seen the expansion of a middle class not matched by savings or productivity increases. This mismatch means there has been a rise in the level of debt to disposable income from 52% to almost 90% in the space of only a few years.

This makes it unlikely that retailers will achieve the same levels of growth as the heydays of high credit growth. However, this is not to say that there are no opportunities for savvy and innovative retailers to find a niche in the market and benefit from it. Broadly, we have identified three key ways that industry players could potentially drive the growth they are seeking.

Increase market share

This is no doubt a difficult task in a climate where established retail giants such as Stuttafords have had to close their doors, and consumer companies that rely on growth and inflation to generate earnings growth will in our view find it increasingly difficult to survive in this market. But it is attainable. It will require creativity in looking beyond the traditional retail business model, and will even require looking into products and services already within their portfolio and how they can be re-imagined to add value and increase market share.

Become more operationally efficient and streamlined

Finding ways to improve operational efficiencies is by no means a new concept, and most businesses have already examined ways to streamline business processes from the supply chain right through to customer care. The rise and adoption of digital technologies in the last few years has, without doubt, assisted in improving cost efficiencies, but implementing the right technology has wider capabilities.

It can, for instance, contribute to more seamless demand planning and forecasting to help meet customers' ever-evolving expectations, as well as improve productivity, reduce time-to-market of new products and drive revenue gains. This makes it critical for retailers to consistently evaluate how their current strategies and technology solutions are contributing to greater efficiencies.

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Expand – geographically or in product offering

Linked to the ability to increase market share is expansion – and the two main ways for retailers to expand are into new product markets and into new geographical markets. Of course, each comes with its own set of pros and cons; moving into new markets comes with regulatory and policy considerations, it typically provides an effective way of driving earnings growth by capturing new customer markets and opening up more opportunities.

Only those retailers that have clear and robust expansion and efficiency strategies will be able to achieve higher than average earnings growth. The important point to take away is that retailers who proactively look for gaps in the market and aim to create solutions to fill those spaces will most likely be the ones to achieve growth.

ABOUT THE AUTHOR

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