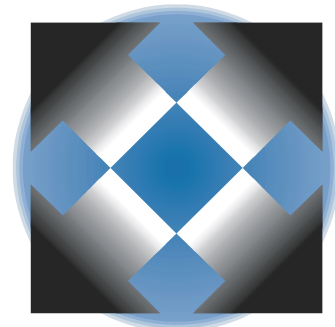


WORKING WITH WINNERS

In this issue Andrew Gorecki talks to Graeme Wise, Managing Director of The Body Shop Australia.



A regular feature in which we profile Australian retail industry champions



Graeme Wise

Andrew Gorecki: The Body Shop is one of the best known retail brands in the world. It seems to be a mature business concept, hence my first question: what's new and exciting at The Body Shop in Australia?

Graeme Wise: Whilst our business may appear to be mature, our market segment is definitely still unexplored. Our share of the total cosmetics market can be substantially increased, and we are consequently working in this direction. We are quite excited with opportunities that are available to us.

AG: What specific projects are you working on?

GW: One important area is the continuing review and improvement of our core business processes. We want The Body Shop to be more efficient, and to offer better service to our customers. We put a lot of effort in team building and staff training. Another important direction is the development of new distribution channels, the key one being The Body Shop at Home. By using a party-plan concept we are successfully reaching new groups of customers.

AG: What is unique about your approach to the party-plan marketing?

GW: We are the only retail organisation in Australia that I know of, which successfully combines bricks-and-mortar retailing with the party-plan system. There are many successful operators who excel

in one of these channels, but we are the only one that is getting strong results in both. Initially we focused on areas where we had no store presence, but now we are also using the party-plan model within the catchment area of our stores. This mix is working well for us.

AG: What are your plans for the existing store portfolio?

GW: After a period of consolidation, we have recently opened a new store in Camberwell, Victoria, and it is going better than expected. We have a well-proven formula and the only variable is the availability of good sites. Over the next 12 to 18 months we will be opening more new stores, and at the same time we want to improve the mix within the existing portfolio. We currently have 68 stores, in addition to our mail order centre in Melbourne, and we sell on-line.

AG: One of the common sour points for retailers is their relationship with shopping centres. What is The Body Shop's approach?

GW: Our relationship with shopping centres is strategic. We always negotiate firmly, but we are obliged to go to places where people shop. On the other hand, we are increasingly confident that we can make any good location work – including strip shopping areas. Hence, when the rent within a shopping centre goes to the point of being unreasonable for return on investment, we will look elsewhere.

AG: The Body Shop has always been renowned for its social agenda. How important is this part of your business?

GW: The Body Shop always had a strong social and environmental agenda. This is an integral part of our core values. We see the responsibility of business to be a functioning part of the society. Hence, it is not enough to just to serve the customer.

It is equally important to accept responsibility towards employees, suppliers, and the wider community.

We are committed to balancing economic success with being a positive force for environmental and social change.

AG: What are your current projects in this area?

GW: Many social issues could be addressed if the necessary resources were available. This is why we are continually working on developing economic solutions for social problems of marginalised communities. For example, we work with indigenous communities on specific economic initiatives to improve long-term social disadvantage. We also work with the governments and community groups to achieve change.

It is of fundamental importance that social problems are addressed on a long-term and permanent rather than temporary basis.

AG: The Body Shop in Australia is a very successful business. What would you identify as the key success factor?

GW: As you would appreciate, I have been refining my business formula over the years. My main observation is that one of the most important elements is the ability to motivate our team to achieve optimum results. It is vital to recognise that work is a part of life and vice versa. If being at work can be a pleasurable experience, as good as other life experiences, people will respond well and will produce extraordinary results. It is also important to encourage people so they are fulfilled and reach their full potential. If you can liberate this in everyone, then you can create a force no one can challenge.

AG: Graeme, I appreciate the opportunity to talk to you.



Retail Directions

ISSUE 14
QUARTER 4

IN THIS ISSUE	
Working with winners: Graeme Wise	1
Suppliers Can Retail Directly Over The Internet	2
Product News	3
Chatter	4

SUPPLIERS CAN RETAIL DIRECTLY OVER THE INTERNET – AT THEIR OWN PERIL



by Andrew Gorecki

Retailing over the Internet is a very hot topic, but most sales are still made at loss, justified by predictions of great future profits. In reality, some product categories seem to be well suited to remote purchasing – books and CDs are the most common examples – whilst some other categories simply do not work. In apparel mail orders, the return rate can be as high as 40%, making the whole venture financially unviable.

From the perspective of most retailers, the jury is still out. There is some anecdotal evidence that bricks-and-mortar retailers who engage in retailing over the Internet have a degree of success, but overall, this emerging industry has a dismal profitability record and the turnover is surprisingly low. Estimates of this year's retail turnover over the Internet is around \$50 billion, which is comparable to the turnover of a large, single retail chain such as Aldi.

Yet, can this new market channel be ignored by the majority of established retailers? Unfortunately, it cannot be, as one of the characteristics of this new media is its global reach – not only to consumers, but also to *suppliers*.

More recently, Australia has been witnessing a growing turf war between the retailers in the liquor industry and wine making companies. Wine producers are increasingly selling directly to consumers via the Internet. And, because

volumes are reaching meaningful levels, retailers are becoming genuinely concerned.

This situation clearly highlights a serious problem, confirming that suppliers at times fail to understand the true nature of the retail industry.

The harsh reality is that sometimes even a 5% drop in turnover can make a retail business unviable.

Suppliers, looking for ways to increase their sales, are using the Internet to sell directly to the public, bypassing the retailers. In some product categories a considerable volume will be transacted via this new medium. This is attractive to the supplier, because the increased sales make the business more profitable. Initial successes may encourage suppliers to put even more effort into expanding this side of their business.

The problem is that this marginal increase in sales can come at (an initially unseen) very high cost: the destruction of retailers. As we discovered earlier, these few percentage points may just be enough to break the proverbial camel's back.

The supplier may enjoy a period of improved sales, but one day they may suddenly awake to find that a portion of their retail distribution network has collapsed. One can easily guess the fate of such a supplier.

The old truth is still valid: *all short-term decisions have long-term consequences*.

This brings us to an obvious conclusion — the retail industry cannot afford to ignore the Internet phenomenon — but the key action required is to educate *suppliers*. Suppliers need to realise that the historical 'segregation of duties' is important. Suppliers and retailers should focus on their core competencies, and avoid competing against each other. Those who are experienced in retail know that retailing is not easy. It may appear to the

external observer to be so, but retailing is both a science and an art. This is why, if a product category is suitable for remote selling, it is still the retailers (or retail mail-order houses) that should provide services to the end consumer — not the wholesalers or manufacturers.

Manufacturers such as Levi's (jeans) accepted this fact, and have stopped competing with their own retail distribution network.

The computer hardware and software industry has an unwritten rule: if the manufacturer is asked to supply directly to an end-user, the manufacturer either directs the customer to the nearest re-seller (retailer), or they quote a list price. The quoted price is typically higher than the retail price available from the re-sellers. The air travel industry is similar: you will pay substantially more buying your next holiday from an airline rather than from your local travel agent.

A similar understanding should be reached by suppliers and the retail industry. There is absolutely no harm if a manufacturer or supplier improve their brand visibility via the Internet. But, this is different to direct selling. If a supplier talks directly to the end consumer, the purpose should always be the improvement of brand awareness, not a desire to sell more products. To sell more products, suppliers must work with the retailers.

Australian suppliers and manufacturers need to understand that they are a part of a finely balanced distribution network.

If they make parts of their distribution channels unprofitable, they may one day find that their own Internet shops are the only shops still capable of selling their products.

Product News

U.S. Award for SMS

NCR has awarded Retail Directions' Point Of Sale (Store Management System—SMS) the prestigious NCR prize for usability and user interface. The feature of SMS that was considered most innovative was the total integration of selling and management functionality, making these functions available on all cash registers within a store.

In competition for the award were 100 other contenders from around the world.

Retail Directions is NCR's preferred General Merchandise software supplier for the Asia-Pacific region.

Retail Directions in Europe

The Body Shop International has deployed RMS and SMS to manage its new *Botanicus* stores. This new chain, originating from the Czech Republic, is focused on products based on pure, natural ingredients (see their web site www.botanicus.cz for more details). This development further expands the use of the RMS and SMS solution within The Body Shop. The system is currently in use in Australia, New Zealand, Singapore, United Kingdom, France,

Germany, Switzerland, Austria, The Netherlands, and Saudi Arabia. New language versions are being prepared for Norway and Denmark.

New SMS Release

In October 2000 Retail Directions released a major upgrade to its SMS point of sale system.

SMS 3.1 includes extensive new functionality and a new data replication engine (distributed retail transaction server), also known as DCM. The new replication engine offers a new level of reliability in data transfer.

New RMS Release

Retail Directions recently released a new version of RMS—its Head Office Retail Management System. RMS 2007 allows for intelligent data replication to the stores with DCM running in batch mode. The actual data transfer is now handled in the background, resulting in faster performance of the Head Office system. RMS 2007 enables SQL statements to be executed from Head Office against the distributed store databases. RMS 2007 is a major architectural enhancement and is already in use on several sites.

RMS and OLAP

Retail Directions has recently re-stated its strategy in the OLAP (On-line Analytical Processing) area. The core element of this technology is the accumulation of raw data into enquiry cubes (multi-dimensional data storage), for fast on-line access and reporting.

The original OLAP engine for RMS was released in 1995.

In 1999 Microsoft released a generic OLAP tool for the SQL 7 database, offering new opportunities to RMS users, allowing for unstructured 'data-fishing' aimed at the detection of relationships between various types of data. However, this does not diminish the importance of RMS OLAP, which handles the structured data analysis required to support decisions within retail business processes. RMS OLAP generates and dynamically maintains data cubes for sales and stock history. A new cube will be released in November for fast tracking of stock deliveries.

RMS OLAP supports dimensions such as geography, range, and (important for retailers) time. A wide variety of measures are available, including quantity and unit cost in master and foreign (store) currencies. Additional measures such as shop floor size history and wages will be added in early 2001. Using SalesCube™ as a viewing tool for the OLAP cubes, RMS users can gain drill-down access to over a thousand enquiries and reports on sales, gross margin, stock on hand, and stock turn.

Extensive graphical tools are also available, including Quadrant Analysis. The RMS OLAP cubes also form an integral part of RMS forecasting and reporting modules, allowing for fast retrieval of historical information at various levels of data aggregation.



Retail Directions was one of more than 120 companies to participate in the Retail Business Technology 2000 show at the Melbourne Exhibition Centre in August. The stand was shared with business partners NCR and Professional Advantage.



CHATTER

Industry news from the media and other sources

No discount for new shareholders

Coles Myer Ltd. announced that new shareholders will no longer be entitled to the shareholder discount card. The scheme, with over 500,000 participants, resulted in profit erosion and substantial administrative costs. Whilst the existing shareholders retain the entitlement for now, the whole scheme is under review.

Strong results for CML

Coles Myer announced its 1999/2000 after tax profit of \$484M: an increase of 9.3% over the previous year. Sales increased by 7.7% to \$24,168M. The only disappointment was the weaker performances of Target and Katies.

Apparel sales improving

After the significant post-GST sales decline in the July-August period, apparel retailers are reporting that the worst is over. Just Jeans and David Jones have been enjoying strong sales in October. Similar feedback has been received from a number of non-listed apparel retailers.

David Jones announces record year

David Jones Ltd. announced its 1999/2000 after tax profit of \$50M: an increase of 22.4% over the previous year. Sales increased by 12.8% to \$1,528M. These were solid improvements, reflective of continuing efforts by Peter Wilkinson to improve the company.

Katies chain acquired by Miller's

In a strategic move, Miller's Retail Limited added the ailing Katies chain to its portfolio. The Group already includes Miller's Fashion Club, Crossroads, GoLo and Crazy Clark's discount variety chains. With the acquisition of Katies (from the Coles Myer group), the chain will have close to 500 stores.

Country Road back in black

After trading at a loss since 1997, Country Road reported \$3.3 million profit for 1999/2000. However, sales revenues have slightly declined. The management remain optimistic about the future, in spite of adverse trading factors this year. Close to 90% of Country Road shares are owned by a South African Woolworths group.

Woolworths hits double digits

Woolworths Ltd. announced 1999/2000 after tax profit of \$295.5M: an increase of 15% over the previous year. Sales increased by 8.4% to \$20,020M.

E-commerce falling out of favour

A number of e-commerce companies have experienced significant share price falls on the US stock exchange as investors reassessed the current and expected profitability of the emergent industry. The typical e-commerce model, where the business is run at a loss and share issues are used to keep the retailer afloat, is gradually losing market support.

GST and the retail industry

There is no doubt that the introduction of the GST has had an unsettling impact on the retail industry. Apart from compliance issues, which are not trivial — especially for a small business — there is also the customer reaction to the new price structures. Segments such as apparel were hit badly with some retailers experiencing sales drop in July in excess of 10%.



SMS—the ultimate POS system, shown here on an NCR 7454 touch screen terminal

Retail Directions

Our Mission

To provide world-class retail IT systems covering the entire retail supply chain, from Point of Sale all the way back to suppliers.

Company Profile

Using the latest computer technology and innovative business concepts, the company has developed a highly functional and flexible set of Information Technology systems covering the entire retail supply chain.

The retail software solution consists of Retail Management System (RMS) for head office and Store Management System (SMS) for stores. The software products are modern, mature client/server applications, giving the retailer a complete end-to-end retail software solution.

The functionality of Retail Directions' systems includes: Point of Sale, store back office, head office communications, purchasing, stock control, promotions management, price management, open to buy, on-line sales, profit and stock analysis, warehouse management, automatic distribution, interfaces to external ledger systems, personnel, Call Centre management, and more.

The software now competes with the best offerings in the world. For example:

- NCR Australia chose Retail Directions as their preferred General Merchandise/Specialty retail solution provider for the Asia-Pacific region.
- The Body Shop International has selected Retail Directions' systems for their European, Australian, New Zealand and Singapore operations.

Core Competencies

The Retail Directions organisation is built around people who have worked in retail: designing better business processes, managing information, implementing systems, and maximising competitive technological advantages.

We are therefore able to better understand and address retailer requirements, to maximise the benefits of IT solutions.