

WORKING WITH WINNERS

In this issue Andrew Gorecki talks to Peter Wilkinson, Chief Executive Officer of David Jones Limited. David Jones operate 34 department stores around Australia, focused on the higher end of the market.

A regular feature in which we profile Australian retail industry champions



Peter Wilkinson

Andrew Gorecki: Peter, I understand that you have been in retail most of your life. Could you tell our readers about your background?

Peter Wilkinson: I started in South Africa, principally in specialty businesses. In Australia I joined Myer and was the Managing Director of Target at the time of the merger with Coles. Shortly after the merger I was asked to join the Myer department store business, to help in the revival of the business. Later I moved on to Just Jeans, and for the last three and a half years I have been here with David Jones.

AG: Would it be fair to say that David Jones has been the appointment that you have enjoyed the most?

PW: Definitely. I think that department stores have got some unique qualities that are intriguing. They are difficult, they are complex, but they are intriguing. My sense is that there is a strong market segment available for well-positioned and well-managed department stores — in this and every other western country. Working with David Jones is a particular pleasure, because being 163 years old it has immense heritage and substantial brand equity; it had enjoyed wonderful success at various times. When I was invited by the Board to come and work with them to turn the company around, it was a great opportunity to capitalise on these assets and to move the company to a much stronger position.

AG: Since your arrival at David Jones the business has undergone a real transformation. What were the main initiatives needed to turn the business around?

PW: There were only four major ones, although we have done a lot of other things.

Firstly, we decided with absolute accuracy and great care who we wanted to target as our customer.

We then established that there was sufficient retail volume in that segment for a very substantial and profitable department store chain. And there is not a person in this company who does not know who our target customer is.

Secondly, we worked extraordinarily hard, and in a very micro and detailed way, to build a value proposition that met the expectations of that target customer. We worked extremely hard on our assortment of products; our level of service (we enjoy a 29% service advantage at this point); and the ambiance and the theater in our stores (in Adelaide we have just won the *Store of the Year* award in the 2000 *International Store Design Competition*). We also focused on improving communications, to make sure that people know what we are doing.

Thirdly, and I think probably most importantly, we brought in and built up within the company a very talented group of management. We have high competence in managing the merchandising, the marketing, and the stores. It is a good and small team: very focused.

And *finally*, we have been very aware of what the right economic drivers of the company are. We understood the need for continuing efficiencies that drive costs out of the business, and the need to turn the inventories faster than we have been turning them. We understood the need to get our aged stock out of the business, and we certainly realised that we

had six stores that never made profits, so we had to close them down. Today, the economic model of the company is still not where we want it to be, but it is already a competent business.

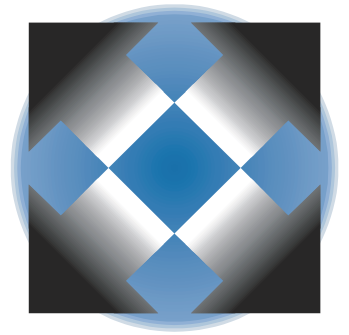
AG: What personal qualities are needed to drive such a massive business transformation?

PW: I am not sure to what degree I have them, but you do need certain qualities. *Firstly*, you have to have a vision for your business that would position it well in a future state of the industry. Then you need the capacity to connect that vision to realistic tactics. *Secondly*, you have to recognise that there are highly competent people that can do parts of the business better than you, and you have to seek them out. You have to give them freedom and reward them well. *Thirdly*, I believe that you have to have a nice slice of determination. Irrespective of whether you are starting a new enterprise, or running a good one, or recovering one that is not in good shape — you have to be prepared to keep going and pushing — even when your critics are saying the progress is not fast enough or that you are on the wrong track.

AG: How can you develop such qualities?

PW: Part of it is learning from people that we work with. It is also important to watch sportsmen and business people that are successful. I think that if you are observant and interested, you can get immense learning out of all that. Just watch how Steve Waugh has lead the Australian Cricket Team, watch how John Eales has lead the Australian Rugby Team, watch how so many of Australia's top business people have performed successfully year after year. I think that one of the qualities you will find in all of them is determination.

AG: Peter, thank you very much for your insights.



Retail Directions

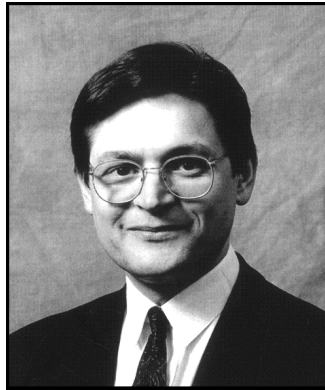
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PREPARE FOR WAR!



by Andrew Gorecki

In 1995 Fred Wiersema and Michael Treacy published a book entitled *The Discipline of Market Leaders*. In it, they identified three fundamental value disciplines applicable to every business:

- Operational Excellence
- Customer Intimacy
- Product Leadership.

Arguably, this was nothing new, but Wiersema and Treacy also discovered that market leaders choose only one of these disciplines to excel in, and the others are deliberately kept in check at an acceptable level only – nothing more. In other words, the key to market leadership is to achieve the world’s best practice in one of the disciplines, and to keep the other disciplines at the level of industry average.

According to Wiersema and Treacy, anyone attempting to excel in all three directions is doomed to fail, as low cost, high service, and product innovation are, to a certain degree, mutually exclusive.

This may defy the conventional wisdom, but the fact is that no company can be all things to all people, and it takes discipline to know what *not to do* in your business. As professor Robert Nordlinger of *Superior Strategy* in Melbourne once said, “An

important element of any business strategy is to know when to say NO”.

Recent events in Australia’s retail industry are a good catalyst to talk again about Value Disciplines: the Aldi chain has just opened their first stores in Australia.

Two fundamental questions immediately arise: will Aldi succeed? and what can the existing players do to stop them?

The answers are that Aldi will achieve their objectives without any doubt — and nothing can be done to stop them.

The only good news is that Aldi will not take over the entire supermarket segment in Australia. Being a very focused organisation, they will simply work with diligence to fill their market niche, and then they will stop. They will stop, because Aldi is an Operationally Excellent organisation.

To understand better what we are faced with, let’s reflect on some history. In mid-1980s Australia had four discount supermarket operators who were focused and good at what they were doing. These were: Franklins, Jewels, Shoey’s in NSW, and Bi-Lo in South Australia.

David Weeks, then owner of Bi-Lo, often said that one of the biggest dangers to a discount retailer was becoming profitable, and spending money on improving their stores – fixtures, décor, sanitation, etc. The purpose of a discount retailer was to offer the cheapest groceries, not to augment the stock with a great shopping experience and great customer service. All such add-ons inflate the operating cost, raising the prices, and pushing the retailer into a different market segment altogether.

Over the last 15 years we have observed the gradual death of discount grocery retailing in Australia. As David Weeks predicted, the main operators failed to resist the temptation to improve themselves, and drifted away from the lower end of the market. They fully embraced fresh produce, not realising that it is a very much a boutique category which relies on specialist staff rather than the mass operation that is required in supermarkets. As a result their costs have gone up – both operating and capital.

So, it appears that Aldi is in a fortunate position coming to Australia. Any real potential competition has eradicated itself by now, and there is a clearly definable and profitable market segment waiting to be exploited. Since this segment is at the bottom end of the market, a truly Operationally Excellent operator can come in and take it with relatively little effort.

Aldi is a classic example of a market leader who is excelling in the Value Discipline of Operational Excellence, and at the same time offering a reasonable product range with an acceptable level of service (if it was not acceptable, people would not shop there). One could say that Aldi offers the best price with minimum inconvenience.

This is why the Australian supermarkets that are trying to compete with Aldi by reducing their prices, simply cannot win. Having a much higher cost structure, they cannot achieve reasonable margins if they continue to compete with Aldi on price alone.

Having vacated the lower end of the grocery market, the

Company News

Australian supermarket operators must now pay the price. Some volume will be lost and some locations will become commercially unviable.

It is too late to defend the lower end of the market – anyone trying to do this will have to compete with Aldi head on, and no supermarket chain in Australia currently appears to be able to do so.

Does this mean that Australian retailers are unable to adopt the concept of Value Disciplines and achieve market leadership? Not so. There are retailers who recognised the importance of the concept and embraced it with mastery.

A great example is the Vintage Cellars chain, which was developed using the Value Discipline of Customer Intimacy. The success of this venture speaks for itself, and no wonder – the management of Vintage Cellars continues to pursue a single objective: to be the number one customer intimate organisation in Australia. Visit Vintage Cellars and experience it for yourself. Try to ask for a unique wine – if they don't have it in stock, they will search for it all around the country.

The arrival of Aldi will no doubt cause some dislocation within the Australian retail industry, but in a sense it is also a positive development. It gives us an opportunity to learn from the world's best, and observe how a Value Discipline can be executed with perfection.

In the age of globalisation, this will be an important lesson to learn. Hopefully, next time when another global operator comes in, we will be prepared.

It is also possible that if we are well prepared, they may choose not to come at all. As Flavius Vegetius wrote sixteen centuries ago: *Qui desiderat pacem, preparat bellum* *.

What's New in RMS

Retail Directions' Retail Management System (RMS) manages the entire Head Office operation. The system handles business areas such as sales, merchandising, stock, pricing, warehouse and store replenishment, purchasing, and store personnel. Over the last three months even more functionality has been added to RMS, making it a true system of choice for Australian and international retailers.

A sophisticated tracking system for stock-in-transit was added in December 2000. In 2001 further improvements to RMS include: close integration with the Epicor financials applications, and with Paperless Warehouse — a sophisticated radio-frequency warehouse management system.

Another great addition to RMS was a set of Point-Of-Decision (POD) analysis tools, which allow the users to view sell-through information, style performance, size/fit sales, and stock on hand information. RMS POD reporting is a retail-specific implementation of the OLAP (On-line Analytical Processing) concepts, giving retailers all the benefits of the OLAP (data warehousing) technology, without spending time and money on generic data mining tools.

What's New in SMS

Retail Directions' Store Management System (SMS) provides complete Point of Sale functionality, and manages all aspects of store operations. The key features of SMS are its ease of use (no sales person training is required), and high resilience to the typical problems of the retail environment.

During the last quarter of 2000 an important development in SMS was that of the new Remote Upgrade system. Retailers who use SMS can now upgrade their stores with new versions of the system in an easy, fail-safe manner. If the system detects any issues (even a trivial problem like lack of disk space), the system is automatically restored to its original state.

The functionality and useability of SMS were also expanded:

- The system can now be used in duty-free airport shops.
- New reporting facilities have been provided for store personnel. These include: a daily store performance report, a drill-down sales analysis report, and more.
- Stock control has also been improved – the screens have been made more intuitive, and the system can now generate recommended store orders.
- Finally, a lot of work has been done in the area of Electronic Funds Transfer (EFT). SMS now works with the Verifone Electronic Funds Transfer system, in addition to NCR's EPS system.

The Things You Don't See...

When you buy a new computer system for your business, there are many things to consider and compare such as price, functionality, and ease of use. However, there are also some important aspects of a system that are difficult to assess. The most crucial one is the internal system architecture. If the internals of the system are not engineered to cope with the tough retail environment, you will have trouble.

RMS and SMS have been designed to cope with the issues typically found in retail stores: loss of sales and data resulting from problems such as untrained staff, operator errors, power failures, hardware failures, malfunctioning printers, data communication difficulties, and more. When you count every type of problem that can crop up and multiply by the number of stores you have, you will see the benefits of a properly designed system in a whole new light (especially at busy times when errors are more likely).

So, next time you look for a computer system, make sure that you check under the hood as well.

* (He) Who desires peace should prepare for war.



CHATTER

Industry news from the media and other sources



Miller's Retail Group Continues to Grow

The Group reported its results for the first half of 2000/2001 with sales exceeding \$320 million. The Group has expanded significantly through acquisition, but sales growth in the apparel comparable stores was still a solid 5% against the general weakness in the apparel sector. The Group now comprises the Miller's Fashion stores, Katies (still being reorganised following the acquisition in November last year), GO-LO and Crazy Clark's discount variety chains. In total the company now operates close to 700 stores.



Just Jeans Defies the Statistics

Whilst many apparel retailers are hurting, Just Jeans reported a solid 7% sales increase and significant improvement in profits – up 20%. In the first half of 2000/2001 the chain achieved sales of \$190 million and interim profit of \$7 million. The group operates 500 stores comprising Just Jeans, Jacqui-E, Jay Jay, and Peter Alexander stores.



Coles Myer Half-yearly Results

Sales declined during the first half of the financial year 2001 by 0.2% to \$12,300,000. With provision for the removed Wholesale Sales Tax (WST), the sales actually increased by 5.5%. The profit results were disappointing, with profit after tax dropping to \$234 million, 25% down compared to the corresponding period last year. The food division performed well, with general merchandise sales being static, and apparel declining by nearly 6%.



E-commerce in Retreat

During the last nine months e-commerce retailing has been in retreat, finding its rightful place in the retail industry. Some e-commerce retailers merged, and some are no longer in business. Market valuation of the surviving business is being adjusted down, and it is beginning to approach the real value. The multi-billion, exponential growth forecasts produced over the last 5 years have now been proven totally unrealistic. This is nothing new: in 1905 an industry expert predicted that by 1920 all traditional retail shops were to close due to the rapid growth of mail order.



Woolworths Going Strong

Net profits grew to nearly \$240 million (over 12%) and the sales reached \$11.3 billion (growth of 9%) for the first half of the financial year. The supermarkets division is performing exceptionally well and the group may be on an acquisition trail. It recently acquired the Perth-based Liberty Liquor chain (40 stores), increasing Woolworths' market share in the liquor segment to 10%. The shareholders have all the reasons to be pleased.



Harvey Norman Keeps Growing

Harvey Norman announced solid growth during the first half of 2000/2001, achieved through improved store performance and opening of new stores. On the comparable store basis the sales increased by nearly 11%. If adjustments are made for WST and the number of trading days, the increase is over 20%. Net profit has increased more than 10% compared to the previous year's corresponding period. At the same time Gerry Harvey keeps reinforcing the point that the trading conditions remain poor.



New Technology at GO-LO and Crazy Clark's

In their drive to improve operational efficiencies and to effectively control the continually expanding business, GO-LO and Crazy Clark's discount variety stores have selected Retail Directions software systems to manage their retail businesses. In close integration with Epicor financials and advanced warehouse management system from Paperless Warehousing, RMS and SMS are already running live at GO-LO and will soon be deployed in the Crazy Clark's stores.



Colorado Buys Palmer Corporation

The footwear and clothing retailer Colorado Group acquired Palmer Corporation (which owns the JAG brand name) for close to \$14 million. Sales of the Colorado Group were in excess of \$320 million last year. The combined group operates 340 stores nationwide.

Retail Directions

Company Profile

Using the latest computer technology and innovative business concepts, Retail Directions 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 management, 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 management, call centre management, and more.

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

- NCR Australia has chosen 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 UK, European, Middle East, 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 retailers' requirements and produce real solutions for their business needs.