Clicks to focus on value for under-pressure consumers

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Clicks Group expects weak consumer spending to continue and says it will emphasise value and innovation over the Christmas period, CEO David Kneale said on Thursday, 24 October 2013.

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Like other retailers, Clicks Group is faced with shoppers who have put the brakes on spending as a result of rising household debt, escalating costs and lack of job creation.

Clicks Group reported a 9.2% rise in full-year profit, in an environment in which consumers in its core middle-income market remained under pressure.

"Consumers are very cautious on spending, they are spending when they have cash, so you're seeing a great spike at month-end when people just get paid and I think its likely to continue," Kneale told BDlive.

The Cape Town-based company reported a 13.6% increase in turnover to R17.5bn for the year to August. Diluted headline earnings per share were at 298.6c from 273.4c previously.

"This pressure is evident in the low level of real growth in the private healthcare market and the continued reliance on promotional activity to drive volume in the health and beauty markets. These factors have also contributed to selling price inflation remaining constrained," Kneale said.

The group declared a dividend of 119.5c per share, from 107.9c per share last year. Selling price inflation remained low and averaged 2.6% for the year.

Clicks opened a net 22 new stores to extend its footprint to 442, with 331 in-store pharmacies.

The Clicks ClubCard loyalty programme passed the 4-million mark in active members during the year.

In an environment where retailers are trying to win over new customers and keep existing ones, loyalty card schemes have proved pivotal.

These incentive schemes do not only reward members for purchases, but also help retailers to better understand their customers' buying behaviour. They are able to mine information so they can tailor their products and services to suit their clients' needs. This encourages an affinity between consumer and brand.

The Clicks chain increased sales by 8.6% for the year, with stronger sales growth of 10% for the second half.

The group's Musica chain saw comparable store sales rise by 5.9% in an environment where consumers are shifting their spending to digital formats. Fourteen stores were closed.

According to professional services firm PwC, retail spending on physical formats will fall at a faster rate than spending on digital formats will rise, resulting in an annual decline in spending on recorded music.

"Growth in broadband and smartphone penetration is fuelling the shift to digital and away from physical. Digital is a very attractive option as consumers can buy individual songs, listen to music on portable devices, access music instantly and pay less for it," the company said in a report.

Retail spending on digital music will increase at an estimated compound annual growth rate of 7.8% in the next five years and will total about R132m in 2017.

"The gains made by digital retailers will fall short of compensating for the physical declines," PwC said.

"I think that although the physical format will decline as a proportion of the market in terms of CDs and DVDs, there will in my view always be a market for that product. Musica's intention is to be the last man standing in that market.

"We reintroduced vinyl in 10 stores. What we trying to do is to cater for how people want to access music. One of the growth areas of Musica is technology and accessories, which were up 38% in the last year - that's speakers and headphones, so even if you've downloaded it, you still want a great set of headphones to listen to it," Kneale said.

The Body Shop, which Clicks manages under a franchise arrangement grew turnover by 11.3%, benefiting from the opening of four new stores during the year.

Clicks Group's UPD wholesale pharmacy business increased turnover 43.9% to R11.5bn.

Looking ahead, the Clicks footprint will be expanded with the planned opening of 25 new stores and 20-25 dispensaries.

"Capital expenditure of R338m has been committed for 2014 for stores and pharmacies, IT systems and expanding distribution capacity in UPD," the group said.

Clicks's return on equity remains the highest in the retail sector at 55.6%.