Edcon raises competition alarm on Wal-Mart

By Zeenat Moorad

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Clothing, footwear and textiles retailer Edcon, the owner of Edgars and Jet, has warned that the arrival of international players such as Wal-Mart and Zara could increase competition in the retail market.

Owned by Inditex, the world's biggest fashion retailer by sales, Zara will open its doors later this year, while Wal-Mart's deal with Massmart is chugging full-steam ahead and looks set to be completed by the end of the month.

"Increased competition from our existing competitors or new entrants to the market could result in lower prices and margins, or a decrease in our market share," Edcon wrote in its annual report.

In an already cut-throat market, local retailers vie for the best store location and design, price, product and quality, customer service, credit availability and advertising.

Edcon's competitors include Woolworths, Mr Price, Ackermans and PEP, Truworths and Foschini.

The group also said it could face "significant" additional competition if its competitors merged or formed strategic partnerships, which is likely, according to analysts, considering SA's heightened exposure as an investment destination on the back of the Wal-Mart deal.

From a flicker to a full-blown spotlight, interest in emerging markets has intensified as the search for higher yields and frustration over slow growth and lower returns in developed economies drive foreign investors to SA.

Chris Gilmour, an analyst at Absa Investment, said Africa was the ultimate emerging market.

"I'm convinced that other multinationals will follow," he told said.

Earlier this year, Truworths CE Michael Mark said the group welcomed the imminent arrival of Zara.

"We see their arrival as an opportunity; we are not fearful," he said during a webcast of the group's interim results.

The Zara brand has long been desired by local shoppers travelling abroad and its clothing offerings range from high fashion to basic wardrobe staples.

On Monday, 6 June 2011, Edcon reported that adjusted earnings before interest, tax, depreciation and amortisation (ebitda) increased by 8.1% to R3.16 million for the fourth quarter ending on 2 April.

Total sales increased by 6.1%, with comparable store sales up 5.3% and credit sales accounting for 49% of total sales, down from 50% achieved the year before.

The group said the 9.5% rise in cash sales endorsed the improvement in product offering.

"These results mirror the overall improvement in the South African economy following a period of low interest rates and improved consumer confidence," it said.

Edcon's gross profit margin was stable at 36.9%, with lower markdowns offsetting the impact of input price inflation.

Once known as the retail jewel of SA, Edcon was de-listed from the JSE in 2007, when its shareholders voted in favour of US group Bain Capital's 25 billion rand takeover bid, one of the biggest private equity deals to take place in SA.

But three years on, coupled with the economic slowdown, the multi-branded retailer is still repaying the debt incurred from the leveraged buyout.

The group said its annual net loss widened as foreign-exchange gains on corporate notes declined.

The loss in the 12 months to 2 April totalled R1.84 billion, compared with R1.16 billion previously.Looking ahead, CE Jurgen Schreiber said the group needed to improve merchandising in certain underperforming areas, such as footwear and menswear.