

Woolies bulking up to attract new customers

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Woolworths (WHL) will entice new customers into its stores by introducing larger varieties of product categories and bulk value buys, meaning the battle for the trolley between the upmarket retailer and rival Pick n Pay (PIK) is about to get fiercer.

Woolworth's has already made strides in its strategy of converting basket shoppers to trolley shoppers - it has wooed its well-heeled customers into buying more than just meat and fresh produce from its stores, by taking its pack sizes up and offering bulk and new brands at competitive prices.

The retailer on Thursday reported a 21% rise in first half profit, as its core high-income customers continued to snap up goods.

"What we need to do is to get more customers to experience the new Woolies. We will be more aggressive in our marketing and communication than we have been in the past," Woolworths CEO Ian Moir said.

By the end of 2014, a third of Woolworths' stores will be in a large format style, from 10% two years ago.

Woolworths' salvo comes at a time when Pick n Pay's turnaround strategy is still in its infancy.

"In the foods' business we've taken market share from Pick n Pay. I think they've been clear that they have issues, they have a lot to sort out. As they do, we and others have taken market share," Moir said.

Chris Gilmour, an analyst at Absa Investments said: "Like Shoprite, Woolworths have a huge dedication to centralised distribution which means they can actually exploit their efficiencies."

Woolworths reported an increase in headline earnings per share of 21% to 164.2c in the six months to end-December compared with 135.7c a year earlier. Sales in comparable stores grew by 9.4%.

Simon Fillmore, CEO at Independent Securities said the results were "pretty phenomenal".

"In terms of all the tick boxes, they look exceptionally good. Nice growth, very good cash generation, exceptional return on equity from the business, improvements across all the divisions and in gross and net operating margins for the business. It's difficult to find fault anywhere in these results," he said.

The group's Australian business, Country Road turned out to be a boon, as sales of Witchery and Mimco - which Country Road, Woolworths' 88%-owned subsidiary, bought for A\$172m (R1.5bn) - were included from September 29 last year.

Sales in Australasia increased 55.6%, in Australian dollars.

Gilmour said the group's numbers were "outstanding".

"Their return on equity which is at 58% is going up while the weighted average cost of capital is going down; that is what American investors particularly like - they go for that big gap between the two - this is obviously going to appeal to the foreign investors," he said.

Woolworths' food sales grew by 11.1%. Its clothing and general merchandise sales grew 11.4%. Clothing sales in SA rose by 13%.

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