OPINION / COLUMNISTS

SHANE WATKINS: Strategic positioning of apparel retailers in SA

Best would be to sell affordable clothes for cash from stores in smaller malls

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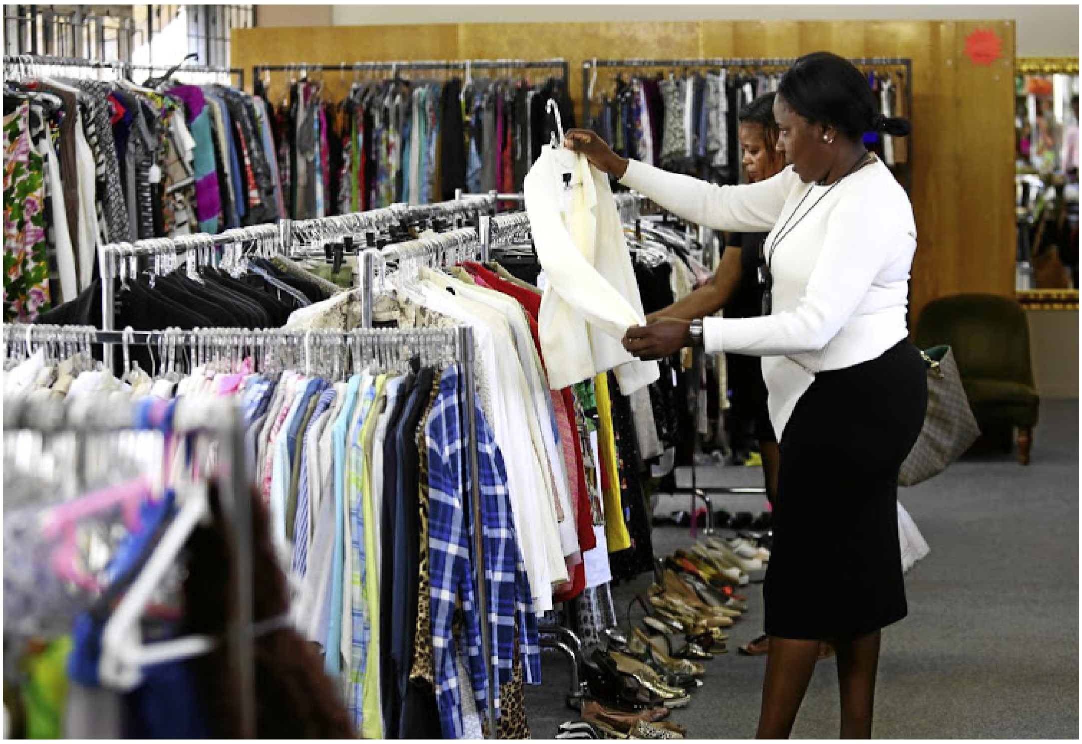

Picture: SUNDAY TIMES/MASI LOSI

Vladimir Lenin said that there are decades when nothing happens and then there are weeks where decades happen. Covid-19 has resulted in an acceleration of trends and events that were already under way.

This rapidly accelerating change will benefit some companies in SA, but is likely to prejudice a greater number. The changes are pronounced in the move from bricks and mortar to online. Our economy is for the most part still an old-style industrial type of economy and not a modern technology economy. There are additional changes happening that are specific to the apparel retailers and some companies will be more negatively affected than others.

Companies where the business model was already outdated will obviously suffer most. Before the arrival of Covid-19, the successful apparel retailers were those selling high-margin product mostly for cash and operating out of premises in high quality “super regional” mall space. With the arrival of Covid-19, spending patterns have changed.

For a start, the work from home (WFH) trend has reduced the need for formal workwear. Estimates are that up to 25% of the office workforce globally will never return to their office jobs. They will migrate to a WFH environment or they will be retrenched. A second trend is the reduced need for “occasion wear” bought for events such as weddings, funerals, 21st birthday parties and so on. These events are now not happening, or if they are it is with dramatically reduced attendance. Apparel retailers selling formal wear or occasion-wear are not well positioned for the new shopping patterns that are now evident.

A further issue is which shopping malls are frequented for apparel buying. Before Covid-19, the best financial results were achieved in the best and most expensive shopping malls. But fear of infection and the requirement to social-distance has made consumers reluctant to spend much time in the large destination-type super regional malls. Instead, many shoppers now travel quickly to smaller regional shopping malls where they can park more easily and spend less time shopping. The more sophisticated buyers are moving to online shopping to buy apparel, further reducing mall visits.

Another issue is the cash vs credit sales dynamic. Credit retailers have previously done well by capturing a financial income stream as well as the margin achieved on the actual product.

But Covid-19 has placed consumers under immense pressure, and bad debt associated with credit extended to consumers is increasing. Most recent evidence of this is Capitec's warning of a first-quarter loss.

Apparel retailers selling on credit will not be spared. They are likely to see significantly higher bad deb, and this will necessitate stricter credit-granting criteria, which will further restrict credit sales.

So, who are the winners and losers in this environment? It seems apparent that the best strategic positioning would be selling affordable, nonfashion apparel for cash from stores in smaller malls. Those selling higher-priced fashion and occasion-wear on credit from stores in large super regional malls are likely to fare worst.

In our view, Pepkor is the best positioned with their affordable basics offering for cash sold out of smaller shopping centres. Truworths with their higher priced credit-based offering sold from super regional malls will fare worst.

Both companies have operationally sound management teams. But Truworths will be like a strong swimmer, swimming against a stronger current.

• Watkins is chief investment officer at All Weather.