STEINER on SATURDAY: The survival of the fittest

Rupert Steiner - Chief City Correspondent for This is Money.co.uk

31st December 2011

Just like clockwork, Santa delivered his festive gifts. The January sales arrived in December and sometime soon the country will probably seize up with the first few flurries of snow.

In the retail world, all eyes are on HMV, Game Group and JJB Sports to see who will wheel out the first profit warning of the year, as jeans chains collapse and shoe retailers call in the administrators.
Many troubled chains will indulge in another Christmas tradition – the festive excuse.

Digital effect: HMV has failed to react fast enough to the impact of iTunes

The weather was ‘too cold’, ‘too mild’, ‘the timing of the big day caught us off guard’ and ‘we saw the wrong type of shopper’.

You know the script – a barrage of reasons why the dire trading update was nothing to do with the executive team.

Yet no explanation why the rival chain next door, operating under the same conditions, managed to laugh all the way to the bank.

But the past 12 months has been slightly different – the ‘seasonal’ excuses have been peppered liberally throughout the year.

Chocolate maker Thorntons blamed Arctic conditions preventing lorries making deliveries and then the hot weather for hitting Easter sales.

Outdated music chain HMV claimed falling consumer confidence hurt sales, while it was warm weather in October that did for Blacks Leisure.

It is true that times are tough. Consumers are hurting, the austerity measures are starting to bite, and shoppers are splashing out only on essential items.

A report by research experts Verdict suggests consumer spending will grow by 1.2 per cent next year, the third-slowest rate in 40 years.

Insolvency firm Begbies Traynor predicts the retail sector will flounder more than others in 2012 because a raft of small to medium-sized firms, struggling to maintain their businesses, don't have the resources to turn things around.

But while retailers are indeed under pressure, the reality is that there will always be a place for well run chains plugged in to what customers want. The rationalisation we are seeing, and will continue to see, on the High Street has less to do with the current economic climate and much more to do with forcing those with out-dated strategies into the spotlight.

Many retailers have not been fit for purpose for years, run by somnolent senior executives who have passed their sell-by dates.

While many are decent, honest, hard-working people, some are just not up to the job any more and need to be replaced with fresh blood. Chairmen and investors have sat idly by for too long letting the status-quo roll on.

All the downturn has done is brought forward the inevitable. Shoppers have become more selective on where they spend their hard-earned cash, which has exposed the chains that are no longer relevant.

It is not the weather that has caused shoppers to avoid Thorntons. It's because what it offers and the way it sells its chocolates has become pedestrian. Why would you buy Thorntons over a box of Roses or Quality Street?

Selling chocolate is like peddling drugs – there is a constant demand and it's addictive. How hard can it be to come up with a sugary treat presented in an appealing fashion?

The answer is not very, as you can see by the success of niche players such as Hotel Chocolat.

We have also heard HMV bleat on for years about the impact of the internet and music downloads on its core business.

It has now been five years since Simon Fox became chief executive. Under his tenure it has failed to react fast enough to the impact of iTunes. Instead it embarked on a range of random excursions. It dabbled with music-related fashion, selling Michael Jackson T-shirts, and reinvented itself as a technology chain selling iPods, headphones and computers.

It even sank £60million into launching a live music business, snapping up venues like the Hammersmith Apollo, only to stage a reverse ferret and place this much-trumpeted acquisition on the block. Yet still the fantastic Mr Fox limps on.

It's clear that not everyone will want to buy music in supermarkets or online forever. Music buyers of a certain age would welcome a niche player staffed by experts in specific genres, whether jazz or classical, adding value.

It is the same story at the Argos-owned Home Retail Group, which failed to adapt and now refuses to scale back its store network. Chief executive Terry Duddy has buried his head in the sand waiting for the good times to return.

What we see here is a series of broken models that without drastic action will remain broken, with or without the downturn.

In the brutal world of retail, shoppers vote with their wallets. They decide who they want to remain on the High Street.

For every chain that fails, the next new thing fills its place.

It's Darwin meets Keynes – survival of the fittest through demand and supply. It's no bad thing.

Link to original article:
www.thisismoney.co.uk/money/news/article-2080512/STEINER-ON-SATURDAY-The-survival-fittest.html