

Retail Postcard

Ferrier
Hodgson

Hi Greer

7 April 2014



In the last few years we've all watched the invasion of the global retail body snatchers flooding into the Australian market. International fashion giants like Zara, TopShop, H&M, Uniqlo, and Gap are set to take up to 6.5 per cent of the domestic apparel market by 2016 according to Morgan Stanley.



Source: holergoseeker.blogspot.com.au

Recent CBA credit card data is also pretty telling, indicating that the growth in apparel and footwear sales is being driven almost entirely by new international entrants and pure-play online retailers, essentially at the expense of our home-grown operators.

However, it is easy to forget that these international fashion brands were not born huge, global or immensely profitable. Each has relatively modest roots that grew by carving a niche in their home markets and refining their business model to prove sustainability. Global growth did not happen overnight.

In recent years we have seen the emergence of Aussie retail brands on the global stage – brands like Aesop (105 international stores and 148 stockists), Smiggle (40 international stores and plans for 200 stores in the UK within five years), and arguably the most successful of them all, the Geelong-based Cotton On Group. With 1,300 stores in 17 countries and 20,000 members the Cotton On Group is taking on some of the world's leading retail brands on their own turf.

From humble beginnings in 1988 selling acid-wash denim jackets at a Geelong market, the Cotton On Group is now Australia's largest fashion group, made up of eight brands selling everything from adults and kids wear, swimwear, lingerie, active wear, foot wear, party wear and stationery. The Cotton On Foundation, the Group's philanthropic arm, is the lifeblood that runs through the organisation and defines why they do business the way they do. Its brands are well represented in the capitals, but Cotton On has found significant success in taking a keen interest in regional areas and aligning local store ranges to specific demographics, all the while actively participating and contributing to local communities where they operate.



Source: Cotton On

There is no doubt that the arrival of global retailers on our shores has shaken things up, forcing local retailers to pull their socks up to remain relevant.



Source: Google

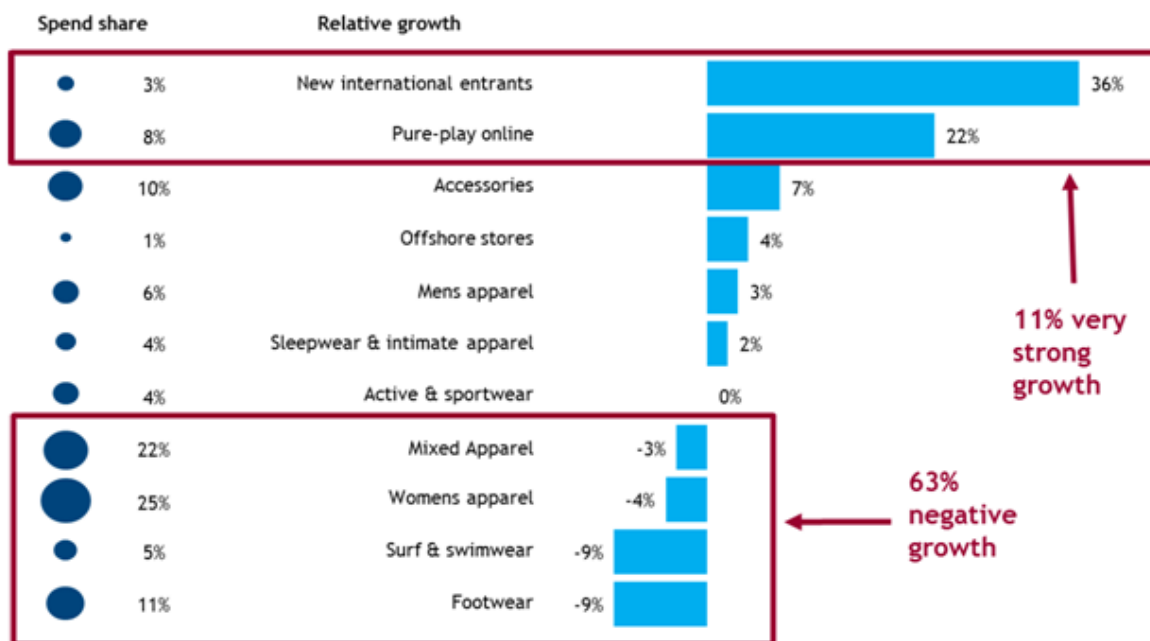
Cotton On has made it clear its goal is to become the dominant value brand globally. CFO Michael Hardwick told me recently about plans to double the business' footprint to 2,300 stores over the next five years. He spoke about the "seismic shift" that has led to Cotton On becoming a global brand.

"Our approach has been to understand local customers, understand local market dynamics and then great product at a price people can afford. It's as simple as that," he said.

This seems to be working for the Cotton On Group . "In South Africa we grew from 42 to 106 stores in FY14. Brazil is the next frontier – opening our first store in the region in Sao Paulo in May."

The Group's 'speed to market' is most certainly one of its strengths. Cotton On has developed a unique vertical retail model that enables them to monitor fashion trends and deliver them to customers with a speed to market demanded by customers – "that's what they want and that's what we deliver," said Hardwick.

Fashion sales growth – 6 months to Sept 2013



Source: CBA – Fashion Retail Spending (September 2013)

There is no doubt that the arrival of global retailers on our shores has shaken things up, forcing local retailers to pull their socks up to remain relevant. The Cotton On Group has however taken it a step further, bringing together a strategic approach, a globally appealing range of product and a determination to make its mark on the global stage.

Regards

James Stewart