

## Coles allows KKR access



Some of the heat has come out of the \$21 billion battle for Coles after a pairing of the private equity arm of Merrill Lynch and British retailer Tesco was dissolved as they could not make the numbers stack up.

While neither party would confirm they had dropped out of the race, many sources signaled yesterday that a Tesco-Merrill Lynch consortium was no longer in the hunt.

Meanwhile, the Kohlberg Kravis Roberts consortium now has access to the Coles data room after signing a confidentiality agreement.

As the barbarians moved inside the gate, the rival Wesfarmers consortium cooled its heels, nursing a 12.8 per cent voting interest but still unable to reach agreement with Coles on due diligence terms.

Wesfarmers will have to wait at least two weeks, with Coles having repaired its previously fractious relationship with KKR to grant it exclusive data room access for a fortnight.

This is likely to further damage the relationship between Coles and Wesfarmers, which deteriorated after the Perth-based conglomerate unsuccessfully sounded out investors with a higher, \$17.25 share offer.

Coles is trying to negotiate a standstill agreement to prevent Wesfarmers from buying more shares and effectively making the auction a one-horse race.

Woolworths, meanwhile, remains interested in the Target and Officeworks businesses and is considered likely to link up with KKR. It also remained on the outside of the data room.

The retailer is considering all its strategic options, believing that its ability to offer its own scrip, and like Wesfarmers provide roll-over relief to accepting Coles shareholders, potentially makes it a king-maker.

A KKR spokesman said last night that the consortium wanted to engage constructively with Coles and its advisers.

"We want to assess the value of the business as soon as possible," he said.

The manoeuvrings at Coles, more than five weeks after Wesfarmers paid \$16.47 a share for an 11.3 per cent stake, came amid a cessation of court hostilities between the retailer and former chairman and major shareholder, Solomon Lew.

The Australian Competition and Consumer Commission is believed to have expressed concern to Coles' advisors about competitors accessing sensitive information during due diligence. The ACCC is worried that potential buyers might never proceed with a bid and instead use information about suppliers, contracts and pricing arrangements.

Lawyers and advisors for Coles and Wesfarmers are still thrashing out the final terms of confidentiality agreement that would allow Wesfarmers into the Coles data room.

Source: Richard Gluyas, *The Australian* 12 May 2007; Simon Evans and Sue Mitchell, *Australian Financial Review* 11 May 2007

### In this issue

<i>Coles allows KKR access</i>	1
<i>Just buyback clears deck for expansion</i>	2
<i>Witchery casts wider spell</i>	2
<i>Booty for Lew in Colorado offer</i>	2
<i>UK indies attack big four</i>	3
<i>A grocer's recipe for success</i>	3
<i>Sears, Kmart open doors to marketing</i>	3
<i>Eye on Australia 2007</i>	4
<i>A fusion of flavours</i>	4
<i>A good start for the ethical product</i>	4
<i>News bites</i>	5

## Just buyback clears deck for expansion



Just Group will focus on its expansion into South Africa as well as assessing potential acquisitions, following the completion of a \$65 million share buyback.

The clothing retailer was swamped with demand from investors wanting to take part in the program, which was announced in March, forcing it to scale back substantially the tendered offers by about 60 percent.

Almost 17 million Just Group shares, or 8 percent of the issued capital, have been bought back at \$3.90 a 14 percent discount to last week's volume weighted average share price.

That is the maximum discount allowed under buyback rules. Just Group shares, which have risen 15 percent in the year to date, fell 29¢ to \$4.26 yesterday.

Investors not satisfied with just 40 percent of their tendered shares being accepted into the buyback are believed to have driven the 6 percent sell-down. More than three times the daily average number of Just Group shares were traded. Managing director Jason Murray said that the company, which has about 800 stores across its five brands, was in a strong financial position to make acquisitions and that the company continued to assess opportunities.

Just Group was also focusing on maximising sales through the important final quarter of the financial year, as well as preparing for its expansion into South Africa, he said.

Just Group recently entered into a joint venture with Pepkor Retail in South Africa, operating its successful Jay Jays brand.

Just Group has returned more than \$150 million to shareholders since re-listing in 2004.

Source: Rebecca Urban, *The Age* 1 May 2007

## Witchery casts wider spell

Nine months after paying the Lew family circa \$130 million for Witchery, Gresham Private Equity has given an insight into its plans for the clothes horse.

The new owners have opened 18 new stand-alone stores, four new apparel and 16 new accessories locations in David Jones.

It plans to open a further 40 to 50 new stores across Australia and is also looking at the bright lights of New Zealand.

Witchery chief executive Iain Nairn, a former Laura Ashley and Colorado/JAG operative, says the company is spend-

ing between \$4 million and \$6 million this year on expansion.

Mr. Nairn said Witchery had 16 potential New Zealand store locations in its sights, which would just pip the footprints of rivals such as Country Road and Cue.

How long it will take for Gresham to get itchy feet is less certain. "You know what PE (private equity) is like I wouldn't say anything is grounded in stone," Mr. Nairn said. "They generally talk in a time of three to five years but if someone comes along and says they want to buy you tomorrow we'd consider that."

Source: Fleur Leyden, *Herald Sun* 3 May 2007

## Booty for Lew in Colorado offer

Last year Solomon Lew was the minority shareholder who blocked the full takeover of Colorado Group and is expected to reap a profit of \$22 million for standing up to the retailer's private equity raiders.

Mr. Lew, it is understood, plans to sell his shares to Colorado's biggest owner, Affinity Equity Partners, in a new bid the private equity firm launched on Tuesday.

Eight months ago Mr. Lew began to buy Colorado Shares, accumulating a 10.8 percent stake which he refused to sell into the first bid Affinity made at \$4.70 a

share. Affinity, which owns 84 percent of Colorado, offered to take up the shares it did not own for \$6.20 each.

Shares in Colorado raced up \$1.09 to \$6.02. According to David Botta, Colorado's managing director, the apparel and footwear business was 'fundamentally sound', although there was much work to do, against a background of fierce competition and price wars.

Colorado, last financial year opened 29 stores and closed 13, leaving 440 in Australia and New Zealand.

Source: Fiona Tyndall, *Australian Financial Review* 10 May 2007

## UK indies attack big four

Independent shopkeepers have launched a stinging attack on competition regulators this weekend, accusing them of failing to do enough research on the buying power of Britain's four biggest supermarkets.

James Lowman, chief executive of the Association of Convenience Stores; which represents 33,000 small shops, claimed that the Competition Commission had not gone deep enough in its latest probe into the country's grocery market.

The ACS will publish its own study. The research gives the strongest indication yet that the buying power of the big four supermarkets - Tesco, Asda, Wm Morrison and J Sainsbury - is distorting competition in the British grocery market.

The study investigated more than 300 different product lines. It demonstrates that 10 percent of products on a supermarket shelf are cheaper than the price a wholesaler which supplies independent stores can pay to its own suppliers.

Lowman said: "This is the single-most compelling proof



that there is a severe competition problem in the market and shows how important it is that the Competition Commission goes further in their probe of the relationship between supermarkets and their suppliers."

Lowman added: "Supermarkets obtain preferential buying terms that are generated not from their volume and efficiencies but from the ability to dominate their suppliers."

Source: *The Retail Bulletin*, 6 May 2007

## A grocer's recipe for success

Danny Wegman speaks of the "role our people have played" in customers' lives. This phrase helps explain the appeal and success of this homegrown company that so far in 2007 has received national recognition from the Food Network, BusinessWeek and Fortune magazine as the store that has "changed the way we shop," provides the best customer service and is one of the best places to work.

In 2006, Wegmans received 4,885 requests from people asking the company to open a store in their community. An additional 4,100 wrote to say how much they liked the Wegmans shopping experience.

The Wegmans said there are no special committees or consultants that determine what the company and its more than 35,000 employees should do.

"We listen to our people. We get ideas from all over the

company. We try out the ideas. If they don't work, we change course," Colleen Wegman said.

Wegman, 35, and her father Danny, 60, continue the philosophy of her grandfather, Robert B. Wegman, who died a year ago. Robert Wegman was known for his willingness to empower employees.

The supermarket chain had sales of \$4.1 billion last year. It operates 70 stores, most of them in New York, with locations in Pennsylvania, New Jersey, Virginia and Maryland.

Wegmans invests in its people in another way: by ensuring that they're well-trained. Another strength of Wegmans, business experts say, is its emphasis on innovation and experimentation with different types of products and services.

Source: *Deborah Alexander, Enquirer* 7 May 2007

## Sears, Kmart open doors to marketing

Sears is talking tough and trying to make some strong moves in its battle to sell its Sears-Kmart concept to consumers while also trying to keep more consumers from defecting to such rivals as J.C. Penney, Wal-Mart, Target and Kohl's.

Among the strategies were new marketing campaigns from Sears and Kmart that both tap into the histories of the respective stores; continued but slowed rollout of Sears Grand, with many of the stores located in underperforming Kmarts; and possible acquisitions.

The campaigns were revealed as same-store sales declined at Sears Holdings in the first quarter. However, Sears Holdings' net income rose 74 percent to \$1.5 billion

in 2006 and its revenue moved up 8 percent to \$53 billion. Among other strategies were that Sears would consider using well-known fashion names to boost its apparel brands, an expansion of its Lands' End division within Sears stores from 100 to 200 stores by year's end, and the introduction of Sears' proprietary Craftsman tools line to Kmart stores nationwide.

Sears' lead agency is Young & Rubicam, Chicago. The company spent \$562 million on advertising in 2005, and \$524 million in 2006. DraftFCB, Chicago, officially became Kmart's lead agency last month. Kmart spent \$190 million on advertising last year.

Source: *Brandweek*, 8 May 2007

## Eye on Australia 2007

The good news is that the mood of Australia has rebounded. In 2007, we've realised our lives are good. More people report being 'extremely' or 'very' satisfied than ever in the 16-year history of the Eye On Australia survey (63 percent).

The gloomy mood reported by many in Eye's 2006 research has lifted. There was a significant drop (8 percent) in concern about the health of the economy, down to just 16 percent. And this care-free economic attitude is flowing on to spending. People are living beyond their means, saving little, and avoiding sticky questions around personal responsibility. Living in the moment seems more important to consumers than acting to address the big questions.

For example, many people are genuinely worried about the environment; 85 percent worry the poor state of it could affect them within 12 months. Yet many believe it is too costly to switch to green power.

And people know they should be putting money away for their retirement, but they aren't.

In fact, they are buying things out of desire rather than need, and buying on credit now, rather than saving for desired items.

But despite the satisfaction, life is becoming more stressful, a whopping 80 percent of us report. We are working longer hours to pay for our 'want it-get it' lifestyle, and feel stressed by the need to be available after-hours to employers. Three out of four said we were becoming too much like the USA, and many also reported that Australia is no longer necessarily the land of the fair go.

Since its inception in 1992, Eye on Australia has interviewed more than 8,500 Australians, including just under 600 in 2007. Respondents were chosen at random from city and regional areas and the research was then weighted to make it demographically representative.

Source: *Grey*, April 2007

## A fusion of flavours



While many retailers long ago traded in-house restaurants for more sales space or smaller stores, Neiman Marcus

remains committed to keeping an upscale food offering part of its shopping experience – and more. “Our restaurants are designed to be a destination of choice,” says Ignaz Gorischek, vp, store development.

As such, no two locations in its sit-down restaurant chain, Mariposa, are designed alike. “Each has its own personality and menu, depending on the market,” says Gorischek. “Our customers often travel to different markets and we want their experiences to vary slightly. We're not a

cookie-cutter operation.”

The chain's newest environment in Florida's upscale Boca Raton Town Center Mall is a 3600-square-foot space, located on the store's second floor and adjacent to the tabletop, crystal and silver departments, houses high ceilings, open sightlines and floor-to-ceiling windows.

Among the restaurant's chic design elements is a copper coil drapery used to separate the hostess area from the dining room. In the back, a wood door frame separates the private dining area from the main room.

Subtle references to Florida's tropical fauna and the Everglades hew to the nature-inspired theme. For instance, a custom-designed area rug running along the window perimeter was inspired by grasses from the local savannah. Similarly, stone tile flooring with natural striations of greens and tans mimics grasses blowing in the wind.

The retailer is also pleased with the culinary setting. “The restaurant isn't overly formal, yet it has a level of dining sophistication,” says Gorischek.

Source: *Anne DiNardo*, *VMSD* 7 May 2007

## A good start for the ethical product

Retail giant Coles Group has adopted an ethical sourcing code, in line with major US and European retailing standards, to protect clothing and footwear workers from exploitation.

Coles will restrict business to suppliers who meet fair, safe standards in the treatment of employees and in the manufacture of products and services.

The code, which applies to Coles' manufacturers and suppliers in Australia and overseas, ensures factories are audited according to the regulations and must be accredited to be ethically compliant. There are about 92 different

criteria, including employment practices, such as child labour, living wages, working hours, forced labour, discrimination, disciplinary action and the freedom of association.

In the workplace, health and safety, equipment safety and the living conditions of workers who stay in hostels on the premises are regulated and monitored, while management must comply with local laws, and environmental and ethical standards.

Suppliers are deregistered if they fail to comply with the code following steps to correct a situation.

Source: *Deborah Cassrels*, *The Age* 14 May 2007

## News Bites

- ◆ Executive director of **Michel's Patisserie**, John Livy, says he is content for the coffee and cake company to pursue growth independently, but that it would depend on what any potential partner could bring to the merged entity. He said that as long as it was compatible, the right type of partnership could 'speed up where we wanted to go.' It is believed that Retail Food Group is interested in acquiring Michel's. Michel's turned over \$200 million in the 2006 financial year and expects to increase that by 12 percent this financial year. It also expects to add another 35 to 40 stores each year, with the long-term goal of further expansion into New Zealand and Shanghai. Michel's, which in March 2006 was sold to a consortium led by ANZ Private Equity and Mr Livy, has undergone a recent restructure to facilitate its growth plans.

Source: *Australian Financial Review*, 14 May 2007
- ◆ Pacific Equity Partners, one of the country's most active private equity funds, has emerged as a potential buyer for Australian book retailer Borders, which its US parent is selling. PEP is closely looking at a deal which would link **Borders** and its 24 stores with the much larger Angus & Robertson 180-store book retailing chain that the fund acquired three years ago. Buying a brand like Borders would add weight and prominence to PEP's plans to float the A&R Whitcoulls retailing group. It is believed that if PEP buys Borders, it will keep the name and expand the chain, just as it has with A&R, but will look to reduce costs by cutting back-office overheads and achieving efficiencies through greater purchasing power with suppliers. Such a move by PEP is likely to put the fund in competition with Borders Australia's management, led by managing director John Campradt, which is keen to mount its own bid for the company, almost certainly with another private equity player.

Source: *The Age*, 1 May 2007
- ◆ More men are shopping for big-label suits, business shirts and accessories which helped lift third-quarter sales at upmarket store David Jones by 8.4 percent to \$436.7 million. The reason why both men and women shoppers were spending at DJs was its exclusive range of international brands under one roof, chief executive Mark McInnes said. All states traded well, especially Western Australia, with men's and women's apparel, accessories, cosmetics, footwear and homewares as "standout performers". Only sales in furniture and home furnishing remained flat, and there was less discounting than last year. The strong third-quarter sales mean that DJs has delivered an 8 percent rise in sales revenue for the first three quarters of 2007 to \$1.47 billion, up from \$1.36 billion a year ago. Buoyed by its solid sales in the three months
- to April this year, Mr. McInnes reiterated his forecast for the second-half net profit to rise by between 8.5 percent and 13.5 percent.

Source: *Teresa Ooi, The Australian*, 10 May 2007
- ◆ From September, customers in seven postcodes in east and southeast London will be able to pay for transactions under £10 by **waving a card** over a reader. For security reasons, a chip on the cards will track activity and occasionally ask for a PIN. Visa Europe and MasterCard Europe will lead the autumn launch with their payWave and PayPass cards. Visa expects around 200,000 customers and 2,000 retailers to take part in the initial rollout. The cards could help cut costs associated with the 20 billion transactions under £10 which take place in the UK every year.

Source: *The Retail Bulletin*, 9 May 2007
- ◆ Shopping centre giant **Westfield** has had an encouraging start to the year, helped by strong growth in jewellery, leisure and footwear sales. The company's Australian retail sales were up 5.2 percent for the quarter, its British centres raked in an extra 5.7 percent and New Zealand sales increased by 4.8 percent. Specialty stores in the US increased sales by 6 percent. Footwear, leisure and jewellery were the best performers in Westfield's Australian centres, with sales increasing by 8 percent, 10 percent and 10.3 percent respectively. But cinemas were disappointing, with sales up just 3.5 percent for the quarter and just 0.2 percent in the past year. Supermarkets also struggled, reporting sales increases below 2 percent. Westfield's Australian and New Zealand shopping centres recorded almost full occupancy, with rates above 99.5 percent. Rents for specialty stores increased on average by 5.2 per in the region.

Source: *The Age*, 9 May 2007
- ◆ Wealthy Singapore is turning out to be a boon for electrical goods retailer, **Harvey Norman**, who currently has 14 stores there; but chief executive Gerry Harvey says it is only the beginning of their planned expansion onto the rest of Asia. Mr Harvey says the company chose the region as the first step in their expansion campaign as Singapore is 'the heart, the hub, the head office of Asia'. It is a move that appear to have paid off as they have now opened a further three stores in Malaysia and aim to open a total of 10 by the end of 2009. Following that, next stop will be Vietnam, where the population is large and the foreign money pouring in substantial. Analysts, however, caution that it may take up to two decades for the company to realise its goal of conquering the whole of Asia.

Source: *Australian Financial Review*, 10 May 2007

## News Bites

- ◆ **Organic food sales** totalled nearly US\$17 billion in 2006, representing 3 percent of total retail sales of food and beverages in the United States, the Organic Trade Association announced. Conventional supermarkets accounted for approximately 31 percent of total organic food sales, while leading natural food supermarkets — such as Whole Foods, Wild Oats and Trader Joe's — accounted for 24 percent. Independent natural food stores netted 22 percent of organic sales. Organic dairy had a stellar year, growing 27 percent, while organic produce grew 7 percent.

Source: [Supermarket News](#), 8 May 2007

- ◆ **Kohl's Corp.** has announced plans to open 110-115 stores in fiscal 2007. The retailer said at its annual shareholders meeting that the expansion includes the chain's entry into Idaho and Wyoming. Kohl's also announced plans to operate more than 1200 locations by 2010. It will also continue to roll out its updated store prototype with enhanced customer features introduced in fall 2006. And it will remodel 29 of its existing stores by the middle of this month and plans to double the number of remodels in 2008. Currently 90 of Kohl's 834 stores have been upgraded to reflect the new prototype. Kohl's told shareholders that net income grew 31.7 percent for its fiscal year Feb. 3, 2007. Total sales increased 16 percent and same-store sales gained 5.9 percent.

Source: [VMSD](#), 3 May 2007

- ◆ **Wal-Mart** said it is installing solar panels that will provide up to 30 percent of the power for 22 stores in California and Hawaii. The move is just the latest green test Wal-Mart will conduct in its stores and the company will look at the results to determine whether it is profitable to expand the use of solar power to its more than 4000 stores in the U.S. Wal-Mart Stores will purchase the solar power from three solar power providers for 22 combined Wal-Mart stores, Sam's Clubs and a distribution center in Hawaii and California. As part of a pilot project, the total solar power production from the 22 sites is estimated to be as much as 20 million kilowatt-hours per year. When fully implemented, the aggregate purchase could be one of the U.S., if not the world's, top-10 largest-ever solar power initiatives. Each solar power generating system installed can provide up to 30 percent of the power for the store on which it is installed. By Wal-Mart's estimates, installing the solar power systems will help reduce greenhouse gas emissions by 6,500-10,000 metric tons per year.

Source: [VMSD](#), 8 May 2007

- ◆ **American Eagle Outfitters** is creating a 12-episode series of three-minute films entitled "It's a Mall World" that will replace the first commercial

break on MTV's "The Real World: Sydney," which starts in August. According to an article in *USA Today*, the show will star young film and TV actors, who will be wearing AE clothes. The specialty apparel brand has hired a film production company led by Milo Ventimiglia, a star of NBC's "Heroes," to film the series. American Eagle will also air five-minute versions of each episode the next day on its website, AE.com, with a feature that allows consumers to buy the apparel worn on the show. The company says it sees such "advertainment" as the future marketing for its techno-savvy 12-to-25-year-old consumers. American Eagle plans a second series for the holidays, and two to three projects in 2008. "Mall World" is described as a funny, boy-meets-girl story with a tone similar to the 1994 feature film "Clerks." Source: [VMSD](#), 9 May 2007

- ◆ Sir Philip Green is poised to kick-start a \$100m spending spree in America by opening three **Topshop** stores in New York. The retailer is searching for sites in the heart of the Big Apple, on Madison, Lexington and Fifth Avenues, and in the broader Midtown area. He expects that his new stores will cover a total area of around 150,000 sq ft of trading space, and is keen to see the first of his American shops open within nine months. Over the coming three years, Green plans to open more than 100 Topshop stores overseas. Discussions are already under way for a 50,000 sq ft flagship shop in Paris; 10 new stores are planned for Scandinavia and the number there could eventually reach 100; and discussions have also begun to take Topshop to China and India. In Britain, 400,000 sq ft of net selling space will open during the next 18 months, increasing the existing 1.3m sq ft of trading space at the Topshop chain by almost a third.

Source: [The Retail Bulletin](#), 13 May 2007

## Contact Us

ACRS Insights is a fortnightly publication highlighting retail related issues of interest to members and affiliates of the Australian Centre for Retail Studies.

**Editor: Yvette Petersen**

### We want to know your company news!

Please add us to your circulation list for company announcements or contact **The ACRS** directly with news of appointments, products, services, industry trend information or opinions that may interest our readers.

We welcome your feedback, ideas and suggestions.

Ph: 03 9903 2455

Email: [acrs@buseco.monash.edu.au](mailto:acrs@buseco.monash.edu.au)  
[yvette.petersen@buseco.monash.edu.au](mailto:yvette.petersen@buseco.monash.edu.au)