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CUT STRAIGHT TO YOUR NEWS

Retailers warned to bite the bullet

Sue Mitchell

Retailers who prioritise protecting their share price ahead of investing to become Amazon-fit will be hardest hit by the online retailer's arrival, says veteran fund manager Andrew Stanley.

Mr Stanley, head of Australian equities at Ralton Asset Management, says retailers need to bite the bullet by stepping up investment in logistics, data analytics and customer service and assessing the likely impact of increased price transparency on their margins and stores, even if it hurts their share price in the short term.

"The ones that focus on the short-term market reaction will be the ones hardest hit because they're going to

delay the changes that need to be made," Mr Stanley told *The Australian Financial Review* after releasing an 80-page white paper on Amazon's impact on the Australian market.

"(Amazon's entry) requires a transformation of the way management thinks about their company to the extent they need to bite the bullet and make the adjustment today," he said.

"In the longer term those that act more quickly and as it becomes apparent what Amazon is going to do are going to be better positioned and likely do less damage to their long-term busi-

ness value by not delaying," he said.

Like broker UBS, Ralton believes Amazon is likely to capture just 2 per cent of retail sales within the next five

years. However it will have a profound effect on the structure of the industry and the way consumers shop, and only the best-prepared retailers will survive.

Ralton has developed a framework for assessing how well retailers will fare based on management's ability to execute on plans to adapt to changing consumer habits and increased competition. The screen also takes into account a company's ability to attract necessary talent, particularly in areas such as data analytics.

Ralton owns shares in Woolworths because of the turnaround under way in supermarkets and bought shares in Wesfarmers after the 2017 results because it feels cash-strapped consumers are more likely to spend on staples rather than discretionary goods. It also bought shares in Vicinity Centres after a 35 per cent share price fall.

However, Mr Stanley, a former UBS, Deutsche Bank and Macquarie Bank director who set up the boutique equities manager in 2006, is avoiding the discretionary retail sector, which he says is likely to remain under pressure as household disposable incomes are squeezed by rising costs.

"There are a lot of pressures there, what this (Amazon's entry) is doing is adding another layer of pressure," Mr Stanley said.

Amazon's arrival will accelerate the shift to low-margin online channels, while increased price transparency will likely see price falls of at least 10 per cent.

The pressure on sales and margins will make some stores unprofitable, forcing retailers to put a brake on new stores or close marginal stores. In the US, retail floor space has shrunk by about 10 per cent since 2010.

Customer expectations will rise, forcing retailers to invest heavily in online capabilities, service, logistics and loyalty, further squeezing profits.

"Customers are at the centre of everything Amazon does. People have been crimping on that to offset some of these other pressures they have faced, all of a sudden they're going to have to start reinvesting," Mr Stanley said.

"I wouldn't single anyone out, it's going to have an impact pretty much across the spectrum," he said.