

The Warehouse - where everyone is getting more than they bargained for

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The Warehouse is wading into the competitive world of food retailing with the launch of its hypermarket on Thursday. Gill South looks at whether this venture will transform the retailer into a New Zealand version of Wal-Mart.

The launch of the new Warehouse Extra hypermarket this Thursday at Sylvia Park will transform the retailer into a New Zealand version of Wal-Mart and threatens to take precious market share from the nation's two reigning supermarket companies.

According to retail analysts, if the company mirrors what happened to Wal-Mart in the US, The Warehouse could be New Zealand's biggest food retailer in 10 years' time. The retailer claims The Warehouse Extra will be the destination store at the Mt Wellington complex, whose other anchor tenants include Foodtown, and Pak'nSave. The Warehouse management has taken ideas from Wal-Mart in the US, Tesco and Asda Wal-Mart in the UK, and Carrefour in France to create the 12,500sq m supermarket/department store.

This will be Australasia's first store with an integrated non-food and food product range, The Warehouse believes.

"We've looked all around the world. We've looked at Tesco in the UK and in Asia, and Wal-Mart and Carrefour, who've been doing hypermarkets for many years. Then we've looked at how to apply the ideas to a New Zealand market. People shop differently in New Zealand," said The Warehouse format manager Michael Pook, who is project managing the new stores.

The Warehouse Extra has been a twinkle in founder Stephen Tindall's eye for more than a decade. And this is a chance for chief executive Ian Morrice to really make his mark. A supermarket industry source said the two big supermarket groups were not taking the threat to their business seriously enough. "The Sylvia Park Warehouse will make your eyes pop out on stalks," he said. "People should not underestimate what Ian Morrice has done. They will do it in grocery and they will do it bloody well. "Other supermarkets are underestimating how good they will be. "Watch this space, it's going to be really interesting, and it's going to surprise a lot of people."

For years, executives from the retailer have been traveling to the US, Europe and South Africa to study store formats. "There's this vision that they can go there. It's the last big avenue of growth for them," said Tim Morris, director at retail specialist Coriolis Research.

He said the hypermarket had worked well in the US, Canada and in the UK, where Tesco Extra dominates. Both the Whangarei and Te Rapa Warehouse stores have been built with a similar floor plan to the Wal-Mart supercentre, with the food aisles running perpendicular to the general merchandise aisles.

The Warehouse will spend \$60m over the next five years converting or building around 15 different-sized stores into hypermarkets, Pook said.

The hypermarket opening in Kiwi Property Trust's Sylvia Park complex will have fresh fruit and vegetables, an on-site bakery and cafe, liquor outlet, health and beauty area, and pharmacist. There will be hot chickens, fresh meat, a full chilled and frozen range. Pook said that new efforts were being made in women's fashion, homeware, and health and beauty.

To show it is serious about its new direction, The Warehouse management has recruited an experienced hypermarket store manager from England. Roy Medlicott, ran an Asda Wal-Mart supercentre in the UK. The retailer has also had consulting help from Grant Downie — formerly the number two at Woolworths in New Zealand. Medlicott, with 18 years in the business, will be focusing on getting the formula right before the retailer rolls-out the concept to a total of 15 stores in the next five years, said Pook. Investors of The Warehouse will be watching the trading of the new hypermarket with interest. Warren Doak, from Macquarie Research Equities, said last week "The Warehouse is unparalleled in the world for its market share in the department store category (43 per cent).

But after the sale of the unsuccessful Australian business, The Warehouse is under pressure to find growth in the core NZ business.

"It is not simply a matter of offering new products and services; those products and services must be highly distinctive, relevant to target customers and in the right stores at the right price and at the right time," said Doak in a recent broker's note. What he likes about the hypermarket concept for The Warehouse is that the core market of these super stores is families on tight budgets, "a description that 1 mirrors The Warehouse's core consumer base". Opening its first hypermarket at Sylvia Park in the presence of a Foodtown and a Pak'nSave is "a trial by fire", said Morris.

Pook was coy on the prices of The Warehouse Extra's supermarket goods, but said the retailer would not be trying to beat supermarket chains on price, although it would be very competitive. It would have the usual weekly and monthly specials, said spokeswoman Cynthia Church.

The retailer is hoping the food offer will make for more visits to the store every week. There will be 28 checkouts handling a mixed shop.

"Whatever they do, it's a hell of a location. It is going to get the bodies going there in great swarms. They will do \$1m a week at that store no matter what happens," said Morris.

Management at both Foodstuffs and Progressive were loath to talk about the threat posed by the new supermarket Warehouse. "This is part of the evolution of The Warehouse. We are responding to consumer needs, it is what people are telling us... How that turns out in market share, time will tell," said Pook. Foodstuffs and Progressive Enterprises played

down the move but analysts say the threat is real. Tony Carter, managing director of Foodstuffs which has 56 per cent share of the supermarket industry with Pak'nSave, New World and Four Square, said: "They've been talking about it for a long time."

The Sylvia Park Pak'nSave, which will not open until August, would not be dissimilar to the Pak'nSave in Lincoln Rd, Henderson, said Carter. "I think there are two very strong national players, Woolworths and us." Carter predicted the retail chain will be limited in establishing similar new stores by planning constraints.

Marty Hamnett, the managing director of Progressive Enterprises, which has around 44 per cent of the NZ grocery market, refused to detail what the new 3000sq m Foodtown store would be like. "It'll be the latest cutting-edge model; there'll be a fantastic range," he said. Asked for a comment on The Warehouse Extra he would only repeat "I wouldn't like to comment other than to say the food business is traditionally a very, very competitive part of retailing. Where there are two or three kinds of supermarkets, there is no difference in the fact that it is very, very competitive." Foodstuffs and Progressive are already suffering from competition from independent food stores.

"Supermarkets are losing market share hand-over-fist to green grocers and emerging high-street stores, because the supermarket offering is so bland. They call it Pakeha produce," said one food retail analyst.

The Warehouse hypermarket, meanwhile, is being welcomed by suppliers around the country, suffering from the tight duopoly of Progressive and Foodstuffs.

Pook said he was dealing with similar suppliers to Foodstuffs and Progressive. "We will be selling a number of well-known brands."

The Warehouse's own brands will continue but the retailer will stock more mainstream grocery products. "The more opportunities there are to trade with different customers the better. We are in a unique position in New Zealand with a duopoly." said Brenda Cutress, executive director of the NZ Food & Grocery Council.

Negotiations are ongoing with Progressive about supply contracting and some small suppliers are under enormous pressure. The two big chains will go into hypermarkets, said a supermarket commentator. Woolworths is developing one on Great South Rd and Te Irirangi Dr. Foodstuffs is likely to get involved at some stage with the Pak'n Save concept.