



Fisher Funds

Investor Education Centre

*Making investing enjoyable, understandable
and profitable...*

Better a buyer than a seller be

13/06/10

In every business there are a number of stakeholders, and it can be hard to simultaneously meet the expectations of employees, customers, shareholders, suppliers and community.

In the case of the retail sector, the balance seems skewed in favour of the customer, and the shareholders, at least for the last few years, seem to get the shortest straw.

As consumers in New Zealand, we are pretty well served by our retail sector. Sure we pay more per item for some things, but by and large, we get access to the latest and greatest products soon after they're launched and, because we're a canny lot, we squeeze out pretty good value and make sure we don't overpay for anything.

It has been hard to make money as a retailer in New Zealand and I take my hat off to those who have.

Kathmandu founder, Jan Cameron, received a Queen's Birthday honour last week and Sir Stephen Tindall has been awarded in the past. These honours have been awarded as much for philanthropy and community service as for business achievements, but retailers deserve our admiration for persevering in the face of adversity.

The Warehouse is a New Zealand institution and shareholders enjoyed its first ten years as a listed company as much as the customers did. However, it has been harder work of late, and even the global financial crisis that should have encouraged us all to shop there and "get a bargain" hasn't helped that much. The profitability and the share price of the Warehouse are not much better than they were six years ago.

The story is similar for Briscoes which was a great little growth story back in the early 2000s but, despite management's best efforts, is still earning broadly the same profits as it did years ago.

Even one of the current darlings of the New Zealand share market, Restaurant Brands, has taken a long time to become an overnight success. The company has substantially improved its profitability over the last year, essentially because it is now being run properly, and the company is on track to earn a little over \$20 million for the 2010 year. Problem is, shareholders have had to tolerate eight years of flat profits before getting a good year.

This week we learned of increased competition for Kathmandu as Jan Cameron hopes to team with Macpac and give Kathmandu a run for its money. We also had Michael Hill announce the closure of eight of the 17 US stores it bought out of Chapter 11 bankruptcy.

Retail is hard, but consumers will always buy their preferred products and services.

The secret is to find a retailer whose products and services are preferred over their competitors'. Thankfully there are enough examples of successful and profitable retailers around the world to prove that investing in the retail sector can be successful.

In fact, now might be a perfect time to invest. Any retailer that is profitable in this horrible environment has got to do better when we all start shopping in earnest again.

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