

The market challenge

UK retail and manufacturing faces an uphill struggle in tough consumer conditions

When a recession hits, the retail sector is often one of the first casualties but, with the right strategy, businesses can navigate the risks and even prosper. *Leadership Challenges* talks to Chris Moore, CEO of Domino's Pizza UK & Ireland plc, and Lord Karan Bilimoria, founder of Cobra Beer, about taking the right approach to stay up in a downturn.



For the UK retail sector, the grizzly economic situation is set to continue well into 2009 and retailers are already feeling the pressure. Forget the occasional encouraging figures from the Office of National Statistics, and look at what is happening on the high street: Woolworths has collapsed into administration, John Lewis has posted its biggest ever yearly fall in sales, Marks & Spencer has grasped at pre-Christmas sales, and Debenhams says the sector faces 'the worst Christmas we have ever had'. The British Retail Consortium predicts that conditions 'look set to get tougher into the New Year'.

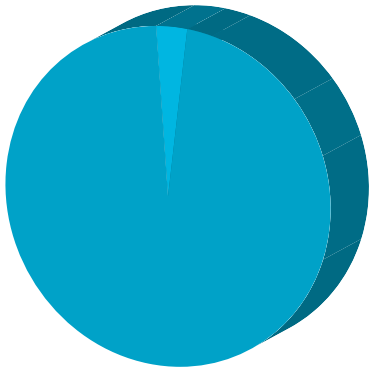
So, while other issues such as sustainability will re-emerge, for the moment most businesses are doing all they can to create strategies to survive the downturn. Some companies are faring better than most; partly due to the nature of their business, partly because of their approach to market conditions. In times like these, survival can never be guaranteed, but retailers can take action to improve the chances of seeing out 2009 in a relatively strong position.

Making a difference

For Chris Moore, CEO of Domino's Pizza UK & IRL plc, one thing that businesses can do to survive and prosper in the difficult times ahead is to focus on the things that really matter to the business. It is a process that has been underway for some time at the pizza delivery company, with a focus on three key pieces of the retailing jigsaw: product quality, service and advertising.

Essentials

- Good expectation management, in terms of the CFO and his dealings with analysts, making sure that everybody has the right profit expectations, is crucial heading into a recession.
- Study after study shows that, particularly with smaller companies, the ones that tend to perform better, and can survive better, are those that are continually looking ahead and forecasting their cash.



3.2%

Figures released in November show October's total sales values were up 3.2% on a year ago, in stark contrast to the 0.1% fall shown by the British Retail Consortium. Sales growth increased from 3% in September, while BRC figures showed total sales growth has been slowing since May.

Source: Office for National Statistics

Moore notes that, while it is not always easy to maintain and improve standards in a downturn, any temptation to let product quality standards slide should be resisted. Domino's is not immune to these challenges. For example, as with many businesses in the retailing sector, commodity price volatility has posed significant problems, with the business experiencing something like a 13% increase in costs.

Focusing on producing a quality product, says Moore, can make it easier to pass some of those costs on. 'If you have got quality products and a great service, customers take on some additional costs,' he says, 'although, despite the increases in our food basket, the average increase to the customer was only 4%.'

Tinkering with a successful product is not advisable either. 'With a product like pizza it is easy to tinker with the quality of the flour, or play around with what you put in the cheese and the sauce,' says Moore. 'The problem is, though, when companies start doing that, they do it across the board, and mess around with every single item that goes to make up the final product. And, while only a minority of customers might notice the first change, the majority will notice the combined effect of several changes. So we have a huge resolve to maintain product quality at a very high standard.'

Customer service is another crucial area of competitiveness for many retailers. Companies need to take a microscope to their customer service processes, analyse them, and see where they can be improved upon. Speed of service is a key issue for Domino's. 'Our set-up is designed to deliver pizzas within 30 minutes, and that's really the core proposition that the whole business is based on,' says Moore. 'It was the founder's belief that, if you delivered your product after 30 minutes, then the hunger would turn to anger.'

Consequently, the company has concentrated on speed of service and reducing the time taken to move from order to pizza delivery. Stripping the process down, every step in the production process in the store was measured and it became clear that a particular metric, the out-the-door-time (the time taken from the moment the order is placed, to the moment that the pizza is leaving the system) was a weak point.

In 2005 it took around 17 minutes for the order to be taken, assembled, baked, made ready for dispatch and taken out of the store. So the company set an ambitious target — 14 minutes by the end of 2010 — a move guaranteed to ensure focus on this aspect of the operations. The time is now 13 minutes. 'It's amazing what you can achieve when you focus,' says Moore.

Spread the word

Another tendency of retailing firms during difficult trading conditions is to cut back on advertising, although this isn't necessarily the right response. For Moore the conundrum over advertising costs is complicated by the fact that his is a franchise business. To finance advertising the core business operates a national advertising fund, charging franchisees 5% on net sales.

The link with net sales is a clever solution to a difficult problem. 'The more you advertise, the more sales you do, then the more advertising you do and on it goes,' says Moore. 'If we have a 20% sales increase over a year, we have a 20% increase in the advertising budget. And not many companies can boast that today.'

'You've got to have agility hard-wired into your system, which we do, and an ability and willingness to change.' Chris Moore

Moving into 2009, and in all probability a deepening recession, firms would do well to manage expectations, playing on the conservative side – even when the numbers look encouraging. 'Good expectation management, in terms of the CFO and his dealings with analysts, making sure that everybody has the right expectation on the profit figures, is serving us well,' says Moore.

'I think the consensus for our like-for-likes is somewhere between 4–5%. Our run-rate for the last five years on like-for-likes has been 9.7%, so because we were on 10.5%, ahead for like-for-likes at the end of the third quarter, 4% or 5% may have been low-balling it a couple of years ago. But in today's market there's absolutely no point in racing ahead with the numbers.'

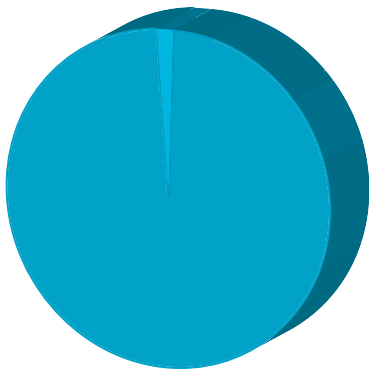
Surviving and thriving in a recession

Another business thriving in a tough trading environment is Cobra Beer, founded by entrepreneur Lord Karan Bilimoria. Bilimoria knows all about business survival during an economic slowdown; he successfully started Cobra Beer during recession in 1989. Bilimoria identifies a number of things retailers and manufacturers can do to improve their fortunes during the difficult year ahead.

His first point echoes Moore's focus on expectation management; Bilimoria stresses the need to set realistic targets at a time when consumer spending is under pressure.

Chris Moore

Following an early career in international advertising working with McCann Erickson, Chris Moore joined Domino's Pizza International Inc in 1990 to set up its European marketing department with a remit that covered France, Holland, Belgium and Spain as well as the UK and later, Ireland. Since 1993, following Domino Pizza Group's (DPG) acquisition of the master franchise for Domino's Pizza in the UK and Ireland, Moore has focused full-time on these two markets.



1.8%

Retail sales in central London in October were 1.8% lower than a year earlier, on a like-for-like basis, the worst since summer 2005 but still slightly stronger than the 2.2% decline in the UK as whole.

Source: BRC-KPMG London Retail Sales Monitor

'You need to set achievable targets, taking the economic climate into account,' says Bilimoria. 'For example, we have forecast a growth rate in the UK of around 26%, whereas in an earlier period we may have set a much more ambitious growth rate of 40–50%.'

Lending to SMEs may have increased by 9% year on year to September 2008, according to the British Banking Association, and successful businesses with a strong track record may find it easier to obtain financing in 2009, but the reality is many businesses will find it difficult to raise money. That is why, says Bilimoria, businesses need to be on top of their cash position. 'Study after study shows that, particularly with smaller companies, the ones that tend to perform better, and can survive better, are those that are continually looking ahead and forecasting their cash,' he says.

'It is always better to be able to predict if you are going to be running out of money, than to run out of it and then go and have to ask for more. So constant forecasting is crucial.'

And stay close to your customers, advises Bilimoria. That way you can monitor which segment of your customer base may be more likely to buy, and which is cutting back, and then adjust your marketing and operations efforts accordingly.

Diversification helps, as it allows you to switch your attention more easily to prospering markets. 'As a business, if you're diversified in your customer base, in a recessionary environment there will be certain segments that will do very well,' says Bilimoria. 'But if you are entirely dependent on one sector then you're not as solid. Among our customers, supermarkets are continuing to do extremely well. Our sales are evenly spread between restaurants and supermarkets, the on trade and pubs.'

The same principle applies territorially. 'Now more than ever, you need to think and operate globally,' says Bilimoria. 'Even though India is more integrated into the global economy, for example, the IMF is still predicting a 6% growth rate there. So with a company like ours, where 25% of all our sales come from India, that diversification helps as well.'



Lord Karan Bilimoria

Karan Faridoon Bilimoria, Baron Bilimoria CBE DL (born 26 November 1961) is an entrepreneur and a life peer. He is best known as the founder and chairman of Cobra Beer. Bilimoria was born in Hyderabad, India. He founded Cobra Beer in 1989. He received the CBE in 2004 for services to business. In 2005, he became Chancellor of Thames Valley University — the United Kingdom's youngest university chancellor at the time.

One critical factor identified by Moore and Bilimoria is flexibility.

'You have to be flexible,' says Bilimoria 'If elements of your supplier base turn out to be uncompetitive, or go into administration, you should be able to replace your supplier very quickly. Because we don't own our breweries, with one exception in India, and brew in a number of locations across the world, if one of our breweries lets us down, we should be in a position to find a replacement very quickly.'

'Going back to the extraordinary volatility at the moment, if you read a newspaper at two o'clock in the afternoon now – you know it's completely out of date.' Lord Karan Bilimoria

Moore also stresses the need for agility. 'In this sort of turmoil and in this particular market you have to show certain traits. You've got to have agility hard-wired into your system, which we do, and an ability and willingness to change,' he says.

'That may take you in many different directions; it will take us into looking at every single opportunity, in every single store at grassroots level; it will take us into looking at product innovations; service innovations - all sorts of different areas. But if we stand still and think that one day in the future it's all going to come right and it will all be exactly the same as it was a year ago, that is a big mistake to make.'

As for the predicting what is likely to happen in 2009, given the careening events of recent months, Moore questions the ability to predict what is likely to happen tomorrow, let alone in the next year.

'Going back to the extraordinary volatility at the moment,' he says. 'If you read a newspaper at two o'clock in the afternoon now – you know it's completely out of date.' ■