



John Albertson

PLEASE, SIR ... MAY I PAY LESS?

This economic climate is no time to be battling the landlord. The way forward is to forget the past and focus on the future, says John Albertson.

When one looks at the cost structure of a retail business at the level below gross margin there are two key elements of cost:

- Staff costs; *and*
- Occupancy costs.

It wouldn't be unusual to see figures that look like the following:

Gross margin (%)	36%	
Staff costs (excl. owner)	12	} 28%
Occupancy costs	12	
Other fixed costs	4	
Net profit/owners' wages	8%	

Well, sorry ... that might have been the case a few years ago but I would suggest that this picture has changed considerably. Just think about the following:

GROSS MARGIN

The level of discounting that is in evidence would suggest that even 36% might be difficult to achieve in a lot of sectors. With the softening of the New Zealand dollar leading to more expensive imports,

coupled with a reluctant consumer, we wouldn't suggest much improvement on this in the near future.

STAFF COSTS

Anywhere between 10–12% of turnover (excluding manager/owner) has always been considered to be where staff costs should sit. But over the last few years this target has come under real pressure – and here's how:

- One extra week annual leave;
- KiwiSaver;
- Increasing minimum wage and flow-on effect; and
- No youth rates.

WAGE PRESSURE OF LOW UNEMPLOYMENT

To try and keep the numbers between 12–15% has, I would suggest, been a real battle. The only way many independent retailers have managed to keep these staff costs reasonable has been to reduce staff hours and work even longer hours themselves. This trend is likely to continue.

OK, so we are doing all we can with staff costs – what is the other 'biggie'? There is only one other significant cost – rent/occupancy costs.

RENT/OCCUPANCY COSTS

Over recent months I have heard some horror stories around rental payments. In my simple, nice, worked example earlier in this article I had rent at 12% of turnover. For a speciality retailer operating in a shopping centre, this would probably be a dream ... 14%, 16%, 18%, 20% ... these are not uncommon rent percentages these days and, in many cases, they are crippling the business.

Our first reaction as a retailer is to blame the 'rapacious landlord' – "these guys don't care about the state of the retail market, they are only interested in ROI", "if I had a centre manager who showed some loyalty to his tenants I might have survived," etc.

Often these kinds of comments are fair and reasonable but on other occasions the retailer must also shoulder some of the blame – and

it's not just in shopping centres.

Let us consider both sides of the story.

What does the landlord need?

- To achieve a fair return of the shareholder/ROI/generate growth in the value of the asset;
- To achieve a high occupancy rate;
- To have an appropriate store mix;
- To maximise traffic count;
- To have continuity of payment;
- To minimise operating costs;
- Secure viable retail tenants;
- To provide good centre management; *and*
- To provide a secure and attractive environment.

What does the retailer need?

- To have a high customer count (sufficient numbers of target market customers);
- To pay a fair market rental;
- To have a clear and unambiguous lease;
- To be part of a centre with high occupancy rates and strong retailers;
- Good (and fair) centre management;

- To be part of a vibrant, exciting retail space;
- To gain advantage from shopping centre marketing programmes;
- To make a profit; *and*
- Recognition of loyalty.

This sounds pretty easy. By and large, both parties want much the same thing. So why does it often all fall apart? Why do we end up with unhappy retailers?

We believe the key word is 'fair' – a 'fair rental' or a 'fair return' or a 'fair profit'.

In buoyant market conditions, leasing agents have had no trouble finding tenants. However, as the trading environment deteriorates (as is the current situation and likely to be for the foreseeable future), this may well change. New entrants, expanding chains, migrating chains from Australia, etc. are not likely to feature strongly in the short-to-medium-term period. Landlords and

tenants must work far more closely together for the sake of the industry – and their own long-term future.

We would suggest that it is time to put away past differences and focus on the future. It is a fairly bleak-looking future, but one we can come through if we work together.

We don't need to change anything on the lists of 'what the landlord needs' and 'what the tenant needs' – what we need to focus on is the word 'fair'.

It is time to think less about the relationship between retailers and landlords as being a competition – a battle of wills if you will.

It is time to think 'partnership' – and think really long-term. Trading realities need to be reflected in occupancy costs. ■

By **John Albertson**, CEO of the New Zealand Retailers Association. Contact him at: jalbertson@retail.org.nz.

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HANDY HINTS FOR PROSPECTIVE TENANTS

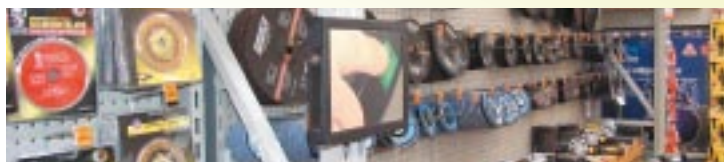
- Do your sums – start with rent at, say, 12% and calculate the turnover you need. Divide this by the days per year you will be open. Is this daily turnover achievable?
- Remember, if you are signing a six-year lease at \$125,000 per year, your commitment is for \$750,000. Make sure you form a limited liability company.
- You will always need more capital than what is required for fit-out and set-up – most businesses don't reach profitability in year one and you must have sufficient capital to cover this.
- Always seek professional advice on your financial and legal obligations.
- Never rely on the leasing agent's advice alone. The New Zealand Retailers Association (NZRA) can help with this and can also put you in touch with solicitors who specialise in lease evaluations should that be necessary.
- If you are in a shopping centre and can't get satisfaction from the centre manager, approach somebody further up the organisation. It is your business we are talking about.
- Get the basics right – make sure you have a business plan with a budget and cash flow forecast and measurable key performance indicators.
- You need to understand the total package of costs – rent, operating expenses and the marketing levy – it's often not just about rent but it's about the total cost of occupancy.
- Join the New Zealand Retailers Association. It is here to help – its sole reason for being is to assist retailers and to help them be successful. Phone: 0800 472 472 or e-mail: rsinclair@retail.org.nz.

Compiled by **Russell Sinclair** and **John Albertson**.

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