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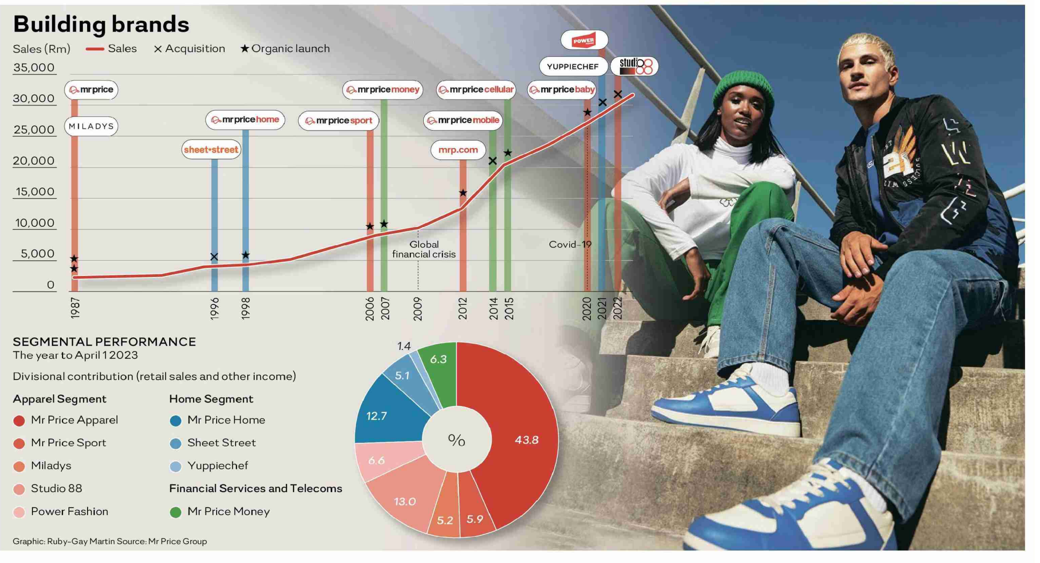

Mr Price to undertake big clear-out and diversify

Group sets its sights on excess stock and standalone kids' stores

By **THABISO MOCHIKO**

● Mr Price Group aims to clear excess stock of its apparel brands that have piled up as a result of electricity blackouts that cut trading hours. It is also seeking to diversify, grow its new acquisitions and open standalone stores for children's clothing.

The owner of Miladys and Sheet Street said that by the end of June all its stores will have backup power to ensure continuous operations during load-shedding.

Consumers are under considerable pressure and increasingly restricting spending to non-discretionary items.

These conditions, together with load-shedding, contributed to expected sales calls not materialising across the sector, resulting in high inventory levels and a highly promotional trading environment, the retail group said.

Heavy discounting in the retail market undermined the group's everyday low-price positioning and compromised its ability to showcase its new items.

CEO Mark Blair said this week that the company is "trying hard to get that [old stock] cleared and at the end of the first half [of the 2024 financial year] we hope to be in that position".

He said the inventory situation depends on the severity of load-shedding and its effects on consumers and shopping patterns. However, with backup power in place across all stores, management is in a better position to manage stock.

Sales forecasts have factored in economic and operational requirements "to support us buying the right levels of stock for seasons ahead", Blair said.

Unnecessarily high inventory levels is an industry-wide issue.

At Pepkor, stockpiles increased 11.7% to R17.3bn due to lower sales performance at Pep and Ackermans stores in the six months to March.

Mr Price said it lost almost 318,000 trading hours and almost R1bn in sales.

Still, the group will spend more than R1bn mainly on stores, with plans to open up to 280 new outlets, including 90 for Studio 88 brands such as John Craig, Skipper Bar and SideStep.

The inclusion of Studio 88, which was bought last year, lifted Mr Price Group's group revenue, which grew 17% to R32.9bn in the year to April 1.

Mr Price bought 70% of Studio 88 for R3.6bn, with plans to buy the remainder in the next three years.

Studio 88 stores are located in high-performing areas that make them easily accessible, including in small shopping centres in towns and city centres, said Blair.

"In the first six months we gave owners the space they needed to carry on trading under a very difficult climate," Blair said.

Studio 88 stores sell branded items including sportswear.

Blair said with the exception of Nike, Studio 88 stores are top sellers across all major sporting brands that supply them.

Mr Price will explore lay-by options at Studio88 stores.

Blair warned that the business was unlikely to contribute strongly to group half-year financial results, which closes in September, as Studio 88 is traditionally stronger in the second half of the calendar year.

In the past two years, Mr Price has bought value fashion business Power, Studio 88 and homeware company Yuppiechef to diversify into new consumer segments.

> **It [Mr Price apparel] has the highest brand equity in the market and largest customer base. If we see dilution we will be worried, but we are not**
>
> **Mark Blair**
> **Mr Price Group CEO**

The strategy is also aimed at reducing its heavy reliance on its traditional Mr Price apparel business, which is facing strong competition from rivals including TFG's Jet.

Mr Price's apparel contribution to group revenue fell to 45% in the year to March from 56% in the previous corresponding period.

Mohamed Mitha, investment analyst for Camissa Asset Management, said the core Mr Price apparel chain appears to be reaching maturity.

This business had performed incredibly well for the group for a long time, but the competitive landscape has changed in recent years, with the division facing strong competition from H&M, Cotton On, Pick n Pay Clothing and newer entrants such as Shein, Mitha said.

"This is a likely reason that the group is looking to reduce its reliance on this division," he added.

Blair said Mr Price apparel has been material to the group's performance and it was more heavily affected by the economic headwinds.

"It has the highest brand equity in the market and largest customer base. If we see dilution we will be worried, but we are not," he said.

Mr Price will open a standalone children's clothing store brand, Mr Price Kids, that will sell clothing for youngsters, from newborns to preteens.

"We are moving away from the Mr Price Baby concept into a more holistic kids offer," said Blair.

Children's clothing generates about R3bn for Mr Price Group and Blair said "we believe we can comfortably double that in the next five years".

The constraint will be on securing trading locations, he said, though the group has identified the first 300 store locations.

"We forecast only 20 stores in this financial year but will ramp up in the next financial year," he said.

Mitha said the group's outlook remains challenging across the clothing sector in the short term.

"The industry is still dealing with high levels of inventory that need to be cleared in what is a very constrained consumer environment. We expect a heightened level of promotions and markdowns for the coming six months," he added.