Club Z leaving its mar
JOHN HEINZL Retailing Reporter
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Zellers chief Paul Walters defends the chain's aggressive merchandizing: 'We want to buy Canadian, but we certainly are not going to buy Canadian if that means putting our business at risk.' (TIBOR KOLLEY/*The Globe and Mail*)

CORPORATE STRATEGY / *The competition's taking pot shots and suppliers may be grumbling, but Zellers is determined to be Canada's No.1 retailer*

Club Z leaving its mark

BY JOHN HEINZL
Retailing Reporter
Toronto

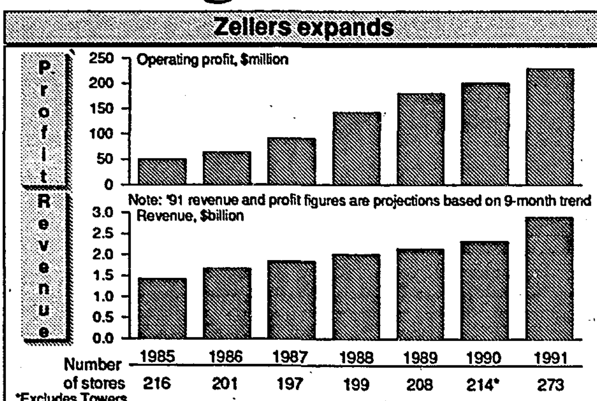
COMPETITORS are taking pot shots and suppliers say they're being stomped, but discount giant **Zellers Inc.** is marching along in a bid to become the biggest retailer in Canada.

"Are we disturbed? No, not at all. The top retailer in the country is always under attack," Zellers president and chief executive Paul Walters says.

Mr. Walters can afford to be a little cocky. As the retail sector struggles through its worst slump in 30 years, Zellers' sales and profits are growing by leaps and bounds.

If that isn't enough, Zellers is toying with opening warehouse-style outlets.

Yesterday, Montreal-based Zellers reported an 11.8-per-cent jump in operating profit for the three months ended Oct. 31, to $52.7-million from $47.2-million in 1990.



Revenue rose to $679.8-million from $559.5-million, partly the result of the acquisition of 51 Towers and Bonimart stores from Toronto-based Oshawa Group Ltd. last year.

When you're as big and profitable as Zellers, it's inevitable that competitors will try to cut you down to size.

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Zellers chief aims to be No. 1 retailer

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In pre-Christmas print and radio ads, Woolco claims to beat Zellers' prices on more than half of items sampled. Customers are urged to "break the price law" — a reference to Zellers' "lowest price is the law."

And there seems to be a jealous sibling within Toronto-based **Hudson's Bay Co.**, parent of both Zellers and The Bay. In what appears to be a jab at Zellers' Club Z, The Bay tells customers to save money, not points, by receiving a $5 credit for every $100 charged on their Bay card.

Club Z, in which members collect "points" redeemable for merchandise, is one of the most successful customer loyalty programs in North America with more than six million members.

While its stores look much like those of competitors — lots of merchandise, some of it a little tacky — what sets Zellers apart from Woolco or K mart are promotions like Club Z and the heavy use of mass-media advertising.

The prime target: The woman between 25 and 55, with a family, who shops frequently for basic clothing and other staple needs. She — Mr. Walters always says "she" when talking about customers — has little discretionary income, often requires credit and is hungry for bargains.

Zellers will spend about $20-million on television spots this year to lure customers into its stores. That is supplemented by 6.2 million weekly circulars, which reach more than half the households in Canada.

The timing for Zellers could hardly be better as the conspicuous consumption of the 1980s gives way to the value-conscious 1990s, says Ross Cowan, vice-president with Lévesque Beaubien Geoffrion Inc.

"The trend is to bargain hunting, to a little more downscale retailing, to stretching the budget dollar further."

But some suppliers complain that Zellers uses its dominance to wring unfair concessions on the massive amounts of merchandise it buys.

"They throw their weight around. These people carry an enormous amount of clout and they use it relentlessly on suppliers," says Henk Boshouwers, executive-director of the Children's Apparel Manufacturers Association in Montreal.

Mr. Walters responds that if Canadian suppliers don't like the way Zellers does business, he will send his buyers someplace else.

"We've challenged all of our domestic vendors to make their businesses more competitive. We want to buy Canadian, but we certainly are not going to buy Canadian if that means putting our business at risk," he says, noting that Zellers was represented last month when Hudson's Bay officials travelled to New York to woo U.S. suppliers.

He adds that Zellers plans to look more closely at U.S. suppliers as duties on some clothing items between Canada and the United States are removed under the free-trade agreement. The last of those barriers will drop by 1999.

With 273 stores across the country and plans for a total of 350 by 1995, Zellers hopes its annual sales will soon top those of **Sears Canada Inc.**, the country's largest retailer. (Sears is still well out in front if its catalogue division is included, but the two are virtually neck and neck if it's excluded.)

"We think we've got a shot at being No. 1 this year," Mr. Walters says.

Expansion is one of the keys to the Zellers formula. Growth in the number of stores helps drive down the company's average costs, which drives down shelf prices, which in turn lures more customers and boosts the company's market share. Then the whole cycle begins again.

The strategy mirrors that of **Wal-Mart Stores Inc.**, the Arkansas-based discount powerhouse that this year became the largest retailer in the United States.

Another feature is "clustering" of stores, which permits greater economies of scale for such things as advertising, administration and store supervision.

Mr. Walters make no secret that Zellers is attempting to emulate Wal-Mart, while at the same time guarding against its possible entry into Canada. And, like Wal-Mart, which launched the successful Sam's wholesale clubs, Zellers is also pondering a move into warehousing.

"We could experiment with larger Zellers units. We could experiment with wholesaling in a category-dominant way. We could look at warehousing on a much larger scale like Price Club or Costco are doing," he says.

Another possibility is to team up with a large supermarket in a strategic alliance, but so far there are no "specific" plans. "We are looking at all kinds of things."

For now, Zellers will be content to "completely dominate the Canadian mass retail market, pure and simple," Mr. Walters says.

But analysts say all of the attention on growth and market share — Zellers owns close to 20 per cent of the $5-billion department store market — has caused a deterioration at the store level.

"They've got checkout problems, massive checkout problems. The lineups at Zellers are horrendous," says one Toronto-based retailing consultant.

John Williams of John C. Williams Consulting Ltd. in Toronto agrees: "They've got the promotional part down, they've got the glitz right, but they have not got the in-store service and operating disciplines down to the degree that some of their competitors have."

Mr. Walters says he's aware of the problems.

"Yes our lineups are too long. It's a consequence of being very successful, by the way. But we have to shorten the lineups, we have to improve the level of presentation, we have to improve overall shopping convenience.

"We have to do a lot of things better."