

From the boot of a car to the malls of the world: How Cotton On built a global business

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From a humble start selling jeans out of a car boot the Aussie retailer has become a global operation.



Cotton On store, Rosebank.

Picture: [Freddy Mavunda](#)

There exist a few lesser known truths about Cotton On's expansion across SA.

For instance, the CEO of one of the largest mall operators in the country once tried to sneak out of his office to avoid a meeting with the (then) little-known Australian retailer.

Today it would be hard to find a shopping centre in SA where Cotton On — through its seven brands — is not a tenant.

When, in 2011, it opened its first store in SA at Clearwater Mall on the West Rand, which by some accounts could be considered the retail boonies, there wasn't much in the way of a "fast-fashion" offering for local shoppers. This retail model, most synonymous with Inditex's Zara and Hennes & Mauritz (H&M), is, essentially, nimbleness in interpreting trends. Retailers, through integrated manufacturing and logistics systems, deliver small batches of product on a (sometimes) daily, weekly or bi-weekly basis. Inventory turns over quickly, the newness keeps shoppers coming back and there's very little

overstock. If something doesn't work, it can be pulled from stores with relative ease.

Though not widely recognised, by 2011 the Australian start-up had adopted advanced replenishment systems, having moved to direct sourcing at least a decade before. Retail was becoming too competitive to have a middleman.

Until then, and to all outward appearances, privately owned Cotton On was just another clothing brand selling "stuff". However, expansion outside its home market was gaining pace, with new store openings in New Zealand, Singapore, Hong Kong, Malaysia and Dubai.

Upheaval had also created opportunity.

The global financial crisis was seen as a chance to enter the US — sites were suddenly available in centres that they couldn't otherwise have afforded.

Cotton On, when it opened in SA, had a different view on cost of production, timelines and lead orders, very foreign to the way SA retailers were operating, says Sasfin's Alec Abraham.

"They [the local retailers] were all cut from the same cloth, as it were ... and had a certain perception of distribution and the dynamics of fashion because they only really competed against each other," he says.

The same year, another store opened in SA, in Sandton City. It remains one of Cotton On's top 10 global stores by sales.

There was a span of just eight weeks between signing the deal with Sandton City co-owners Liberty Group and Pareto and opening the then 1,200m² store on November 11 2011.

The store fit-out was built in two weeks, it took four weeks to get to SA by ship and a further two to be installed in Sandton City.

For a brand that at one time was not wholly convinced that the country was even a right fit, Cotton On, in less than five years, amassed a footprint just shy of 200 stores in SA.

It has three distribution centres — Pomona near Johannesburg, Pinetown near Durban, and Kuils River in Cape Town. Last year it trialled local manufacturing for menswear and books.

"We've had above 30% year-on-year growth all the five years that we've been in SA and we've had positive [comparable] growth for all those five years," says CFO Michael Hardwick. "We did just on R1.8bn [in sales] in SA in our last financial year. The plan for the current year, and we're at June year-end — three or four months into the new financial year — is to achieve around R2.25bn."

It's widely conceded that SA retailers have always been stronger on operational execution than innovation and creativity.

So when Cotton On brought something experientially different through the look of their stores and with their merchandise, it resonated with local customers.

According to consumer consultant and TED speaker Joseph Pine, experiences are a distinct economic offering — as distinct from services as services are from goods. Time, he says, is the currency of all experiences, and the more time customers spend with retailers, the more money they will spend now and in the future.

This concept of "dwell time" is quite an integral part of Cotton On Group's positioning. Whether through phone-charging stations, roomier fitting rooms, free yoga sessions, kiddies' playtime areas or even DJ decks and photo booths, stores — through what is effectively retail theatre — aim to create stickiness between customers and their brands.

"We would rather be seen as a place than a store," says Felicity McGahan, Cotton On's global general manager.

"It's about engaging with the customer — bringing the fun back to shopping — and that has got to be what we focus on, otherwise we give too much to online [shopping platforms] because that's what they can't offer, the personal contact, the experience."

The average basket size at the Cotton On brand is between R300 and R400. At Cotton On Kids it's R480 and R510, and at stationery brand Typo, where 5% of the range is localised, it's roughly R200.

"[Cotton On] made the SA market become more fashion observant," says independent retail analyst Syd Vianello. "They made other retailers pay more attention to fashion. The mere fact that they could get tons of stores up and running so quickly made people look up."

In retail, the understated approach is not all that unusual. There are owners and companies for whom flash or the spotlight is not de rigueur. Take Ingvar Kamrad, the Swedish founder of the Ikea furniture franchise, or Zara founder Amancio Ortega, for example. Both favour introversion over the limelight, letting their senior guard of executives take centre stage.

The opposite end of the spectrum would include the likes of Topshop's Sir Philip Green or Solomon Lew of Country Road infamy.

Cotton On, for most of its 25 years, has led an under-the-radar, almost self-effacing existence — an extension of its founder, Nigel Austin.

He has only ever given two interviews — this report contains one of them, and it didn't take place in a boardroom over tea and biscuits.

Cotton On, if anything, is not conventional.

At its HQ, based out of Geelong — a regional city on Melbourne's surf coast — employees can bring their dogs to work; in lieu of death by PowerPoint the company does monthly braais (or "barbies") to update staff on sales and plans; and it employs the services of full-time personal trainers and offers mindfulness training.

Globally, fluorescent lighting and beige walls are steadily becoming a provocation of the past as workspaces, particularly in creative fields, become more aesthetically inviting and collaborative. Studies have found that this boosts morale, stimulates employee productivity, and ultimately reflects and reinforces company culture. Twitter's San Francisco headquarters are designed to resemble a giant birdhouse and Google, in its London hub, has a 90m running track and sleep pods.

It's hard to articulate what Cotton On's Geelong office is like, except to say it reminds one of a scrapbooking project on steroids. There's a giant slide in the centre of the Cotton On Kids office and a cafeteria that sells organic kombucha and beetroot chips. It has a wall of fame for staffers and the kids they sponsor in Uganda through the Cotton On Foundation (the group has raised A\$50m over nine years through in-store sales of tissues, water and bracelets).

It's on a 14,000m² industrial estate flanked by an automotive repair store, a fire station and a joinery. And what is seemingly incongruous whereabouts for a global fashion company actually epitomises Cotton On Group's "feet on the ground" vim.

"We own everything we build on," says CEO Peter Johnson. "We want to create an environment that's conducive not only to productivity but is also just somewhere pleasant to work. We moved here nine years ago, our grassroots are in Geelong. We started with 50 people and today there are 1,400 of us."

We're sitting on a pink couch in one of the group's pause areas when he rolls out the design plan to show me. The envisioned size following the redevelopment will be 30,000m².

It includes more breakout spaces, a sustainable café that will grow its own vegetables, and new amenities in its health and wellness facility — like a spin studio and an on-site osteopath.

I ask about new markets.

"We forward-plan three years. We always look at making sure we have future growth in the pipeline and we know a new country adds another level of complexity. So when, in year two or three, the growth opportunities start to slow down or dry up, we then say it's time to add another country. A new country will take between 12 months and three years to get volume so it's important we have this overlapping strategy."

China is on the agenda, as are more cities in North America.

I meet Austin (who owns 90% of the business) at Cotton On's flagship store in the Melbourne CBD at Bourke Street Mall, where he stands outside with cousin (on his mother's side) and co-owner Ashley "Ash" Hardwick, who owns the remaining stake.

The only region it's pulled out of has been Germany.

When I ask (but only towards the end of our interview) why the company is not that publicity averse any more, Austin says: "It's a big serious business. We have all the right checks and balances and ethical frameworks in place. We didn't want people guessing who we were."

It does, of course, also have to do with attracting the right talent as a thriving global business. Often this talent will need to come from competitors, says New Zealand-based retail consultant Chris Wilkinson from First Retail Group.

"Advisers may be working with other leading brands and be cautious about relationships — and commercial partners such as property owners — or suppliers may not fully understand the brand, its back story and potential," he adds.

About 33% of the group's global brand managers in its adult business are South African. Its recent recruitment blitz has, according to local analysts, has been to the detriment of Mr Price.

"The guys who run Australia and Malaysia for us now are South African. The level of talent to come out of SA also really surprised us," Austin says.

The pair (and, plainly, most of the executive team) resemble the cast of the BBC's *Peaky Blinders* rather than rheumatic shopkeepers who run a global operation of more than 1,300 stores in 18 countries.

Austin and Ash Hardwick are soft spoken, initially, but become increasingly ebullient as we do a walkabout of the store — they are, after all, on their own turf and talking retail.

If there's one thing SA has turned out to be for Cotton On Group, it's a surprise.

They both recall visiting years ago and being unsure about setting up shop in SA, owing to a mall environment that didn't seem that sophisticated and "girls that were really not dressing in fashion".

The draw, however, was that none of their international competitors were in SA yet and the market didn't exist. Whether by wily knowingness or pluck, the bet paid off.

"What I'm really seeing in the SA market now is how well the girls are dressing — it's really changed," says Austin. "A lot of it is things like Instagram — shoppers are so connected digitally." He adds that structured products like blazers, "bodycon" dresses — short for "body conscious" (read: tight and hugs all the curves) — and denim are big in SA.

"There's a lot more stretch [in the denim Cotton On sells in SA] and higher rises for the bigger booties," he says.

They get together every quarter with the local teams, who present the attributes of their markets that are different to the core assortment. Buyers then select accordingly.

Daniel Isaacs, an equity analyst at 36One Asset Management, says that in SA, other than Mr Price, cheaper clothes weren't stylish or stylish clothes could be relatively expensive (requiring credit from the credit retailers to purchase them).

"I would say the main thing Cotton On brought here was more of an offering in that 'stylish at attractive prices' category, and as we can see, it is a lucrative category. Cotton On has probably been the most successful international retailer in SA so far," he says.

I ask Austin and Ash Hardwick, as we make our way to the group's other stores in the mall, if they had any apprehension coming into an apparel market that was historically characterised by store-card credit and not cash. Internationally, retailers don't typically sell on credit.

"Credit was an interesting philosophical discussion about whether or not we wanted our kids going into debt. It was something we wrestled with for a while," Austin says.

Ash Hardwick adds: "It was also the most compelling part of the offer from some of the [local] retailers, but not necessarily what we wanted to be known for."

Cotton On Group does offer store credit now through RCS — but it's less than 1% of the SA business.

For all intents and purposes, Cotton On Group is really a big fat family, held together by a gossamer of cousins and friends. The company has an advisory team and executive teams for brands, support functions and regions.

The story goes that Austin, while studying business in 1988, started selling acid-wash denim jackets from the boot of his car at the Beckley Market in Geelong to get through university. His first trip to the market wasn't a success — he made A\$30.

The following week, he dropped his prices after negotiating with his supplier and subsequently sold out.

His supplier happened to be his father, the late clothing wholesaler Grant Austin.

Austin Jnr went on to open his first retail store in Geelong in 1991, behind his grandfather's butcher shop.

"I used to talk to my dad twice a day. Also, I grew up around my granddad, he was a merchant," he says.

While in school, Austin worked in his father's Hong Kong office and frequented trade fairs to find suppliers, with many of whom Cotton On still has a relationship.

James Stewart, a Melbourne-based partner at Ferrier Hodgson, says Cotton On Group was one of the few Australian retailers to rapidly scale its business and move to direct sourcing, "which gave them first-mover advantage".

About a year ago, the company reached out to leadership big cheese Jim Collins (he's written books like *Good to Great*, *Built to Last* and *How the Mighty Fall*). After six months of prep, about 32 execs went to Colorado in the US to attend one of his coveted workshops,

"He told me that Warren Buffett made 95% of his wealth after he was 50," Austin says. "He reminded me that we were just getting started — it made us small again and gave us clarity. We were struggling to articulate our strategy and it forced us to get clear."

"We asked ourselves whether whatever had been successful for us in the past, was still going to be good enough. Our [Austin and Ash Hardwick's] roles have changed from seeing and executing, to seeing and coaching."

IPO talk always seems to dog the group. And its always said it prefers autonomy. The founders agree they can take more risks with the company as a private player.

"We're only answerable to ourselves. There's also a different filter — we start with, 'What's the right thing to do? What will the customer love?' We don't have to commercialise everything. It's not about every quarter but the next five to 10 years," says Ash Hardwick.

As is customary in retail, Cotton On has had some infamy: it was fined A\$1m for selling highly flammable children's sleepwear, misleadingly labelled as "low fire danger". It also recalled earth globes from Typo stores that named Palestine but omitted to label Israel.

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Source: Financial Mail

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