

# ACCELERATION FOR SUPER CHEAP AUTO

With a market capitalisation that has increased by \$77 million since January and double-digit sales growth figures for two of its brands, Super Cheap Auto Group is driving on. As customers seek affordable goods, managing director Peter Birtles tells *Brisbane Business News* how his company's product range is not just suited to downturns, but upturns as well.

MATTHEW OGG

INFERIOR goods.

It is the term economists give to products when demand goes up because people have less to spend. Super Cheap Auto Group managing director Peter Birtles, does not bank his company's success on simple rationalisation.

"I think our business has got different types of products that suit different phases of the economy — when times are buoyant people are buying more new cars and they are more likely to buy accessories, but when things tighten up this picks up the car maintenance businesses," says Birtles.

"People hold on to cars longer and when they think of the costs of getting a service they think, 'why pay someone else to do it when I can do it myself?' So they spend on car parts, oil, batteries and they change the filters themselves."

Across the company's three brands — Super Cheap Auto, BCF (Boating Camping Fishing) and Goldcross Cycles, Birtles points to diversity in product ranges as a strong foundation for business growth.

"We sell hard goods which are one-off purchases every two to three years and then we have consumables which are more frequent — we have a good mix of sales," he says.

When he came to the company as chief financial officer in 2001 there were less than 100 Super Cheap Auto stores. Today that number has more than tripled.

## Super growth

While growth for the 18 weeks leading up to May was 10 per cent for BCF, as well as 6 per cent for Super Cheap and Goldcross Cycles, Birtles is quick to point out that

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these figures do not take into account new store acceleration.

"All of the businesses are showing growth that's actually higher than that — when you include new stores, Super Cheap actually grew by 8 per cent, BCF grew by 25 per cent and Goldcross Cycles grew by 50 per cent," he says.

Birtles expects to open a raft of new stores but like-on-like growth for Super Cheap Auto and BCF will slow down as the

economic situation drives unemployment. However, his goal is to increase the group's profitability and this will not just come from revenues, but by cutting bottom line costs too.

"By the end of the calendar year, Super Cheap's growth will gradually come back a couple of percentage points, BCF will maybe be 20 per cent. Goldcross will come back to 10 to 15 per cent as we've now got a good base to start with and won't be opening any new stores," he says.

"We still believe we can improve profitability even with a lower sales base. We've been focusing a lot on the cost of production and we've certainly reduced the costs of operation, partly through product direction, developing in-house brands and by reducing the supply chain."

One cost-reduction strategy has been to adjust the location of distribution centres and to create new ones, which has led to lower freight costs across store operations in Australian and New Zealand. The group also sources most of its products from local suppliers. Birtles affirms that only 30 per cent and 10 per cent of products come from China for Super Cheap Auto and BCF respectively. But he does not plan to cut costs when it comes to his 'team members'. And he does not like the word 'staff'.

"We will continue to invest more in labour costs as the organisation's growth has been driven by customer service. The overall costs of having our people have risen but that's been the deliberate plan — it's put us in good stead over the years as we see our team-based culture as a key differentiator," says the 45-year-old.

Across the organisation are 5000

employees of which 40 per cent work in Queensland. The rest can be found in every Australian mainland state and territory, as well as New Zealand.

With such an expansive company, Birtles cites the biggest challenge as maintaining the core business culture.

This is also one of the reasons the company decided not to franchise.

"We wanted to have very clear control of all aspects of operations, particularly because we're looking for a consistent presence in all our stores – consistent pricing, consistent culture across the organisation.

"Over the years we have thought about it, especially to take the brand into smaller regional markets, but instead we developed a smaller store format," explains Birtles.

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#### **Undervalued**

The average transactions at Super Cheap Auto, BCF and Goldcross Cycles are \$29, \$70 and \$120 respectively. While these may seem like small sums, Birtles expects total transactions to add up to \$800 million in revenues this calendar year.

He says selling tangible products that people love interacting with is one of the most gratifying aspects while watching the business shift up another gear, year on year.

"To see it develop and to see that I'm making a personal contribution gives me a tremendous satisfaction, but I'm also pretty excited about the future," he says.

As for the company's share price surge since March, Birtles dismisses it as more of a market adjustment than a rally.

"The Super Cheap Auto Group was probably significantly undervalued compared to its peers such as the Rejects Shop, JB Hi Fi, so what's happened is a par valuation – we certainly don't think we're overvalued and I'd like to think there's more growth in market cap to come," he says.

The focus now will be to slowly expand the existing base and to build on Goldcross Cycles towards the end of 2010. This will mean the opening of three more Brisbane stores in the next two years, taking the total number to six.

"Over time we'll fine tune it and look to roll out new stores towards the end of 2010 to early 2011 and have 50 larger format Goldcross Cycles stores – we would eventually like to develop 100 of them," says Birtles.



Peter Birtles