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From toys to bottles and clothing: the Kmart brand going viral

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You know you've made the big time when global toy giant Mattel knocks on your door and asks if you can create a selection of wooden toys for them.

Meanwhile, a plastic car bottle holder that costs \$5 proves a sellout hit, while something as seemingly dreary or mundane as a \$99 spot cleaner for upholstery and carpets goes viral on TikTok and is similarly sold out.

What all three examples have in common is a juggernaut private label brand called Anko that was created by Australia's Kmart only a few years ago and that has not only helped fuel a strong profit result for parent company Wesfarmers but now has its sights set on global expansion.

The growth and expansion of Anko is impressive when it comes to its market share, especially in its home Australian market. More than 1 billion Anko items are sold each year in Australia. Anko has the No.1 market share in womenswear, menswear, children's wear, home and toys – of any business, not just among department stores, and is the No.1 or No.2 Australian market leader in every category.

Look around you and it's likely someone nearby is wearing Anko, with 20 per cent of the clothing items sold in Australia an Anko product.

Kmart managing director Ian Bailey, fresh from reporting that the group's sales had lifted 5 per cent to \$6.08bn, and a 26.5 per cent jump in profitability to book record earnings, has grand plans for his Anko brand, and talks of the label as turning the traditional relationship between suppliers and retailers on its head. Brand owners that once sold their products in his stores are now asking him to make products for them to sell in other stores.

"We are doing some work with Mattel, and Mattel like some of our wooden toys and we are effectively licensing our wooden toys to Mattel so they can take those products into new markets for us," Bailey tells The Weekend Australian.

"If you think about it, this is the world really changing where we used to buy products from suppliers and now we are developing products with the supplier and the supplier is saying, actually can you be our product development company for that category and then we will buy it from you and we will sell them under our brand around the world."

Mattel is ordering its wooden toys and Canadian department store owner Hudson Bay, the oldest company in North America, is piggybacking on Kmart to now have 85 per cent of its own house brand, Zellers, in reality an Anko product.

Within Kmart stores, 85 per cent of what is now on sale is Anko. It sells thousands of Anko microwaves a week. And it's not just middle-class, middle-aged parents buying up Anko.

There's nothing wrong with being daggy, but Kmart was hardly ever seen as the centre of youth or cool culture for much of its existence, with its stores a magnet to parents looking to affordably outfit their children and fill their homes. Now Kmart is being rushed by Gen Zs grabbing everything from make-up to drink holders.

And this is all playing out across social media platforms such as Facebook and TikTok, where fans of Anko brands swap ideas, finds and deals. An Anko summer body butter and body mist exploded online, its spot cleaner became a star of TikTok at the end of last year, while a double-wall insulated drink bottle was the first iteration of Kmart's range of drink bottles that went viral and had one of the strongest customer responses of last year.

But the true genius of what Bailey and his team at Kmart have created in only a few years with Anko (it stands for "a new kind of") is that it is not just a private label brand that can be put on everything from fry pans to underwear, but a platform for other retailers to hook into to fulfil their private label needs. This isn't just like a \$1 pack of home brand pasta the supermarkets sell, but – to use that analogy – Kmart also owns the spaghetti factory that can make pasta for any supermarket in the world that wants to stock it on its shelf.

Bailey would not give away the "secret sauce" that has made Anko and in turn the Kmart Group, which includes Target, so successful, but did reveal some of the key strategies and pillars in place that sit beneath the growing brand powerhouse. And it comes down to simplicity.

"The first element is Anko gives us the ability to run one brand across the vast -majority of the categories we are in, so throughout the entirety of 'home' Anko is the only brand," Bailey says.

"That means we only carry one of any similar item, so we don't need to carry three or four brands doing the same thing. The advantage that gives us is that it gives us incredible economies of scale because instead of fragmenting our sales across multiple brands, we push it all through one.

"It means we can have a very complete offer for a category with a relatively small number of SKUs (stock keeping unit). That gives us the ability to be No.1 or No.2 in pretty much every category that we play in terms of market share, despite the fact that we have only got one store (brand) of about 5000sq m. "So we're the No.1 in market share in home and toys, in men's, women's and kids clothing for example, and to do that in a relatively small box is because we run one brand."

The next pillar provides a business model that is more than just direct sourcing from Asian factories to fill up Kmart stores with colourful drink bottles, cushions, and men's underwear.

"Sometimes people say sourcing is really just a cost thing, where you go from buying something from a brand to buying something direct from a factory to save a bit of money. Our business model is so much more than that," Bailey says.

"We are designing products, we are developing products, we have intellectual property associated with them and then of course we work every single element of the process from product design, manufacturing, international shipping, local shipping, in Australia and New Zealand operations, to ensure we eliminate all of the waste and unnecessary costs."

This all boils down to a key rule in retail and which Kmart has now deeply inculcated into its corporate culture. “We can deliver an awesome product to customers at a lower price than anybody else can,” Bailey says.

Befitting the global ambitions of Anko, it has a global footprint that takes it far away from Kmart’s headquarters in the southeast suburbs of Melbourne. Anko products are mainly made across key sourcing markets, mainly in Asia, including China, Bangladesh and India, as well as emerging sourcing destinations such as Vietnam, among others. Anko often shares factories with major US and European brands and retailers and can source some products from local suppliers. It also operates a technology hub in Bangalore, India, where several hundred Anko employee’s workaround technology and innovation for Kmart and Anko.

To be sure, when shoppers walk into a Kmart and see that 85 per cent of the products are Anko and within each category there is a limited range, they are sacrificing choice, but as Bailey reflects, how many types of frying pans do you actually need?

“Customers do want choice, but not in the way that I think you just defined it,” he says.

“For the vast majority of things, customers want a great product at a great price. Now that doesn’t always have to be at the value equation of Kmart. There’s obviously brands at much higher price points than Kmart that are super successful.

“And then when they get to a category, they want to have enough choice, but not too much. So if you’re thinking about going in and buying a frying pan, if you see 50 frying pans it’s a bit confusing. I’m not a frying pan expert and if I’m buying one, I try to figure out which one I should buy by looking at the wall [of products].

“What we do is we make sure every frying pan is different. We generally have three different price points, so we’ve got very entry level through to sophisticated products, and then we try to make it really obvious what’s different about each one, so it makes it easy for the customer to choose. So, the customer gets the right amount of choice, which is what we are constantly looking for.”

There has been some push back from shoppers. When Kmart tried to push Anko brands into stablemate Target, some shoppers complained, and it was enough for the retailer to pause and review its strategy. Target shoppers wanted more choice in brands, especially in clothing, fashion, and fashion accessories.

About 20-25 per cent of Target products will be Anko.

For now, Kmart Group looks like the new champion for Wesfarmers with its half-year sales of \$6bn creeping up on workhorse Bunnings, which had half-year sales of \$9.9bn but is growing at a much slower pace than Kmart.

But Bailey jokingly plays down any suggestion Wesfarmers CEO Rob Scott would see Kmart Group and himself as his new favourite: “I don’t think dads have favourite children.”

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