Paperchase

The stationery specialist is bolstering its offer as it prepares to take on new competitors

Paperchase opened its Glasgow flagship in April last year

BY TIFFANY HOLLAND

Paperchase has been sharpening its offer over the past few years, opening flagship stores in key locations as it aims to grow its presence in an increasingly competitive category.

The upmarket stationery retailer last month opened a flagship store in Piccadilly. This follows 13 standalone store openings in the past year, including a return to Glasgow's Buchanan Street in April 2013.

The 15,000 sq ft Glasgow flagship was an important move for the retailer, which had been away from Buchanan Street since the UK division of US bookseller Borders Inc collapsed in 2009.

The Borders collapse ended a tie-up which had enabled the stationery retailer to rapidly double outlets and sales. Borders Inc acquired a 19.9% stake in Paperchase in January 1999 before a takeover in 2004 when it bought a 97% stake in the stationer, valuing Paperchase at £18.6m. Management kept a 3% share.

Paperchase initially opened shop-in-shops in Borders' UK and US stores before launching in House of Fraser and Selfridges, building a network based on concessions supported by standalone shops including Tottenham Court Road and Manchester. By 2006/07 Paperchase was generating sales of £50m and trading from 95 standalone stores and concessions in the UK.

In 2007 Borders Inc sold its UK business to Risk Capital Partners, but retained a 17% stake in Borders UK. Borders UK kept Paperchase concessions in its stores but after a Hilco-backed management buyout in 2009 Borders UK went into administration.

The collapse led to the closure of Paperchase's 38 Borders UK concessions, which accounted for 13% of revenue in 2009. The impact was softened by a deal with Waterstones, which involved Paperchase opening 15 concessions in 2010/11 – but these were halved by 2012.

The troubles eventually led to a management buyout of Paperchase from Borders Inc, led by current chief executive Timothy Melgund and backed by Primary Capital, valuing the company at £20m, in July 2010. Management took a 30% stake in the business with Primary Capital holding the rest.

Within a year of the deal Melgund was faced with a new challenge when Borders Inc collapsed, taking Paperchase's US concessions with it. But Melgund already had plans afoot to recoup lost sales and profits with a raft of UK standalone stores. He has outlined plans for up to 200 Paperchase stores in the UK.

The retailer's stores and concessions shrank to 85 by 2008/09 after the closure of Borders. However, in the next four years Paperchase added 50 standalone stores to its network and at present has a 133-strong UK portfolio.

Paperchase has also been growing its overseas store network across France, the Netherlands, Denmark and debuted in Germany at the end of 2013. It also has seven franchise stores in the Middle East as well as concessions.

It even returned to the US in 2012 through a wholesale partnership with retailer Target.

Online has also been a key growth channel for Paperchase. It has been ploughing further investment into it, including launching international deliveries, while last year it launched an m-commerce site and introduced a personalised greetings card service.

But after its colourful ownership history and years of investment, Paperchase's pre-tax profits have fallen for the past five years from £8.1m in 2008 to £629,000 in the year to January 2013. This is despite sales continuing to grow, hitting £86m in 2013. Profits have fallen because of the continued impact of Borders' collapse combined with exceptional costs relating to store openings and closures.

Paperchase also faces an increasingly competitive marketplace. Australian stationery retailer Smiggle last month opened its first store in the UK with plans to open up to 300 here. And Blott, which has a similar offer, aims to operate 40 stores by 2016.

However, Paperchase undoubtedly has a leading position in the market, and inspires its peers through its vibrant and original product range and slick stores. And with plans to open more stores in the UK and abroad, it is set to further stamp its position on the market.

CRAFT BOX

- **Chief executive** Timothy Melgund
- **Chief financial and operating officer** David Bateman
- **Retail finance director** Kevin Heath
- **Pre-tax profit** £629,000 in year to January 2013

THE RETAIL WEEK KNOWLEDGE BANK VERDICT

Philip Wiggenraad, Retail Week Knowledge Bank analyst

Paperchase appears to have put the disruption of the Borders UK collapse and the latest change of ownership behind it, with strong sales growth over the last two financial years as it continued with the roll-out of standalone stores in the UK. It is also expanding internationally.

However, its recent profit margins remain lower than they were prior to the management buyout in 2010. The operating margin of 1% in 2012/13 compares with the double-digit margins achieved between 2006/07 and 2008/09.

While profitability has been affected by the ongoing expansion of the store network, these margins are very modest for an upmarket retailer, which – until recently at least – had faced limited competition.

The management team will be looking to restore margins to their previously high levels. In particular, there would appear to be scope to reduce its employment costs-to-sales ratio, which has remained at an elevated level of more than 20% in recent periods. A five-point reduction in this ratio would result in a much healthier operating margin of 6% for instance – although this would need to be carefully managed so as not to compromise service.