

# INTERVIEW

Value shoe retailer Shoe Zone's tightly run, no-frills business model has attracted investors and price-savvy shoppers alike. By **Gemma Goldfingle**

## How Shoe Zone put its best foot forward

**S**hoe Zone is not a retailer that often makes the headlines. Despite growing a 550-store value shoe empire, its owners the Smith family have opted to keep a low profile.

However, its £80m IPO earlier this year propelled Shoe Zone into the corporate spotlight. It might not have been as high-profile a flotation as those of Ao.com or Poundland, but it has certainly been the most successful in terms of increase in share value.

The efficiently run business has wooed investors and its share price has risen more than 20% in the past three months. And now brothers Anthony and Charles Smith are ready to tell the story of how they built the business in an exclusive interview with *Retail Week*.

Chief executive Anthony Smith says taking the retailer public was not the wrench some might expect, mainly because Shoe Zone was never meant to be a family business.

His father Michael acquired Shoe Zone's predecessor Bensonshoe mainly for the property.

"He bought it largely to asset strip it," he frankly acknowledges. "He was going to take the properties out and close the business down. It all went a bit pear-shaped for him."

But now, almost 35 years later, Shoe Zone has become one of the UK's biggest footwear players and both brothers have spent their careers at the business.

Anthony, who began his retail career on Sainsbury's graduate scheme, was drawn to Shoe Zone by its former managing director rather than his father.

"He knew me as a child as I always used to work here as a punishment," he jokes. "I turned up in the office and my father said 'I heard last week you were coming' and then didn't really speak to me here for two years."

However, he quickly learned the ropes – working his way up from store to head office – and, when the managing director retired, finally pitched himself for the top job.

His success paved the way for brother Charles to join what became the Smith family business. "I started off by managing the Banbury shop, which I was awful at," Charles jokes. "But I moved on to area manager then head of retail."

He is now chief operating officer of Shoe Zone.

**"More people are prepared to shop with us than ever before"**

**Anthony Smith, Shoe Zone**

The two brothers are very different, both in appearance and personality. Anthony is energetic and vivacious while tall Charles is more reserved and considered. But together they have created a retailer that has thrived while other footwear specialists, from Barratts and Dolcis to Shoefayre, are no longer on the high street.

Shoe Zone has become the UK's biggest volume footwear retailer. It sells 20 million pairs of shoes a year and has done so by running a very tight ship.

Shoe Zone targets C2 and D socioeconomic customers. Keeping its prices sharp is critical – merely raising the price by £2 can halve volumes, says Anthony – and Shoe Zone has done so by keeping its costs low.

Those costs range from rents and storefits to operations. Any consultants or vendors seeking to work with Shoe Zone will be disappointed to find out that the retailer focuses on doing everything it can in-house to reduce costs.

"We run our own logistics, we write our own online software, we write our own till software. If there's anything we can do ourselves, we do," says Anthony.

The retailer buys everything in bulk and its 350,000 sq ft headquarters and distribution centre also includes piles of signs, microwaves and even Henry vacuum cleaners for its stores – "they come here to be repaired rather than buying new ones," says Anthony.

### The Aldi of footwear

Shoe Zone's footwear offer is as tight as its cost control – it sells only 400 lines and carries only 15 price points, much like an Aldi of the shoe world.

"We're not giving our customers a lot of choice or variety in price and they appreciate it. They don't delight in the fact they've only got a tenner for a pair of shoes. They've got a limited budget and we're trying to satisfy it," says Anthony.

He says the price points have also created discipline among its buyers, who cannot simply raise the price of a product to hit margins.

The Aldi comparison is one that Anthony embraces. "Our business model is very much like theirs. Its stores are very cheap to set up and they have very tight line count," he says.

Like Aldi, Shoe Zone won new customers during the recession. And Anthony Smith intends to keep them. "You get people trading down. Then they're surprised how good the shoes they've bought are, so they don't trade back up," he says.

The retailer faces stiff competition from retailers such as Primark and New Look and the supermarkets, which Anthony believes are its biggest rivals. To compete with them, Shoe Zone has to ensure that its prices stay sharp and importantly, its quality is superior.

"I don't think there's a comparison [in our ranges]. Ours are constructed by footwear buyers, not baked bean buyers," says Anthony Smith.

However, he believes the threat from the grocers has waned as they focus on building their convenience offers.

He also dismisses the risk that Aldi and Lidl pose with their growing fashion businesses. "It's marginally annoying at best. We sent our buyers out and they couldn't find a pair in our local Aldi. They're going to have two or three shoes [on the shelves]," says Anthony Smith.

He sees Primark as more of a benefit than a threat. "They've made value retailing sexy. More people are prepared to shop with us than ever before. We want to be near to Primark, they are the perfect footfall driver."

### A property success story

In keeping with its property roots, Shoe Zone has grown through acquisition. It has snapped up Oliver Group, Shoefayre and Stead & Simpson to bolster its portfolio.

But it has not all been smooth sailing. Despite investing to turn around Stead & Simpson, its efforts came to no avail and it decided to liqui-



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## THE SLIPPER KING

"We sell 2.5 million pairs of slippers a year, which is where I get my name from – the slipper king," says chief executive Anthony Smith. "It was given to me by my so-called best friend."

Brother Charles says he is confident the retailer is the UK's biggest volume seller of slippers in the UK.

Shoe Zone is using its prowess in slippers to give something back and has launched a Pudsey bear pair for Children in Need. All the profits from sales of the slippers will go to the charity.



date the business in 2012 which resulted in many negative headlines.

"There's a misconception about what happened with Steads. We paid off all suppliers and looked after all staff. We gave as many of them jobs as we could and those we couldn't, we made properly redundant.

"Morally Charles and I think we did the best thing we possibly could in the circumstances."

Anthony says the process cost £4m to £5m more than if it had opted to put Stead into administration.

Property is still a key area of focus for Shoe Zone and is overseen by Anthony. "Where lots of retailers see their property portfolio as a bit of a millstone, we see ours as a real asset as our leases are so short," he says.

The retailer has an average lease length of two-and-a-half years and Anthony is not afraid to be aggressive to negotiate a deal. He asks for no rent review clauses and has an in-house lawyer so leases can be rewritten every five years.

Rapid growth is not expected at Shoe Zone but it has many levers to enhance profitability such as new product categories. Last year it added handbags to the offer.

It also has a fast-growing online channel. Despite rival Primark's reluctance to launch online, Shoe Zone has developed a profitable ecommerce business that offers free delivery.

Changing demographics are also giving Shoe Zone, and its investors, a reason to be cheerful.

The baby boom of the noughties is boosting the number of school-age children and the ageing population is also a boon to the retailer, which has strength in both areas.

With growth opportunities aplenty, it's no surprise that Shoe Zone's bosses have taken life as a listed retailer in their stride and are primed to stick the boot into the competition. ■

**"If there's anything we can do ourselves, we do"**

**Anthony Smith, Shoe Zone**

Shoe Zone chief operating officer Charles Smith (left) and chief executive Anthony Smith