

SEEKING TO MAKE ITS MARK

With high-quality fast fashion and home goods, Ireland's Primark enters the U.S. market

by SUSAN REDA, EDITOR

Americans haven't exactly been 'gobsmacked' by recent British retail invasions, but experts and analysts say that may change with the arrival of Primark.

With one store open in Boston and another set to debut later this month in suburban Philadelphia, it's too early to speculate on whether shoppers will develop the same affection for Primark that they have for "Downton Abbey," but there's a lot to like about this low-cost apparel, accessories and home goods retailer.

British-owned, Dublin-based Primark is best known as a supplier of fast fashion at prices that represent "value for money." The retailer has an unyielding focus on volume and keeps a tight rein on operating margins — so tight that the company is able to sell skinny jeans for \$10, sweaters priced at \$14, shoes for \$9 and men's suits starting at \$45.

American shoppers' long-standing love affair with bargains certainly suggests Primark will garner attention. Then again, U.S. shoppers have plenty of home-grown options including T.J. Maxx, Ross Stores and Walmart.

Macy's recently debuted the Backstage concept, while Nordstrom Rack and Off Fifth put down roots in the off-price arena years ago.

Industry watchers sense there is something different about Primark, though.

"Whatever market Primark trades in, they

quickly emerge as a formidable competitor on price with the ability to drive down prices," says Neil Saunders, managing director of retail research agency Conlumino. "If Primark has 10 or more stores opened by the end of 2016 as they've projected, there's no question we'll see the same thing happen here."

It's not just about affordable fashion, he says. "There's a level of quality that seems to surprise shoppers given the price. This is a massive volume, high-turn retailer accustomed to doing business on a large scale — and combining that expertise with a lean business model."

What advice would he give to competitors? "Don't underestimate Primark," Saunders says. "You need to work out a strategy to combat their strengths. They're selling items at such low prices that shoppers come in and buy three pairs of jeans, five or six tops and a bunch of accessories in one shot."

"Once a shopper has bought what they need for the season, what's the compelling need to go across the street and buy more?" he asks.

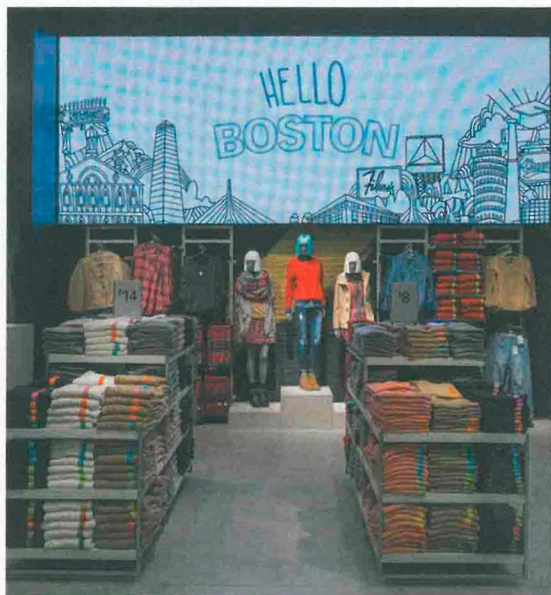
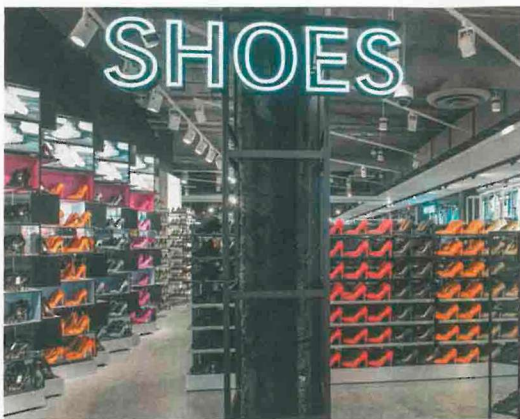
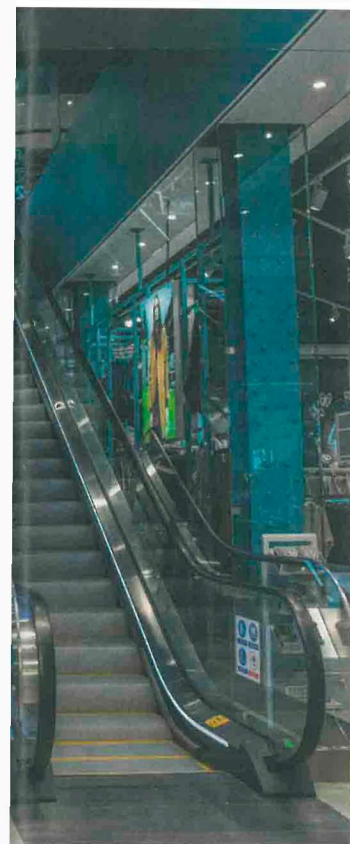
Retail analyst Walter Loeb is also convinced that U.S. competitors will feel what he describes as "the chilling effect of Primark. I have found this retailer to be extremely appealing to young people on a budget: The emphasis on cheap chic is going to impact established retailers such as Walmart, J.C. Penney, Kohl's — even Macy's."

Loeb also believes specialty retailers like Old Navy, American Eagle, Ann Taylor Loft and



Primark by the Numbers

- 2014 sales: \$7.5 billion
- Projected 2015 sales: Parent company Associated British Foods expects Primark full-year sales to jump 13% as the result of a 9% rise in selling space and a same-store sales increase of 1%.
- 292 stores
- 62,000 employees
- 11 million square feet of selling space across the United Kingdom, Ireland, Austria, Belgium, France, Germany, Netherland, Portugal and Spain
- 5 distribution centers in Europe



Justice are similarly prone to the ripple effects of Primark's pricing and product selection.

WHAT'S A PRIMARK?

Primark has been around since 1969, founded in Ireland where it's branded Penney's. The brand, owned by Associated British Foods, has carved a niche replicating up-to-the minute designs. All merchandise — apparel, footwear, homegoods — is manufactured by Primark, which has developed long-standing relationships with suppliers. The company orders huge volumes and makes daily deliveries to stores, enticing shoppers to return often to see the newest products.

John Bason, ABF's finance director, recently told *The Economist* that Primark achieves its low prices thanks to sleek logistics, a meager marketing budget and its scale, which helps win bargains from suppliers. The company withstands tiny margins, making its money on volume. The approach is described as a "faster kind of fast fashion," depicting shoppers' penchant for buying heaps of items, wearing them a handful of times, then returning for a new batch of outfits.

What sets Primark apart from fast-fashion luminaries H&M, Zara and Uniqlo is the retailer's performance: Research firm Sanford C. Bernstein recently reported that Primark's prices are 40 percent below H&M, 33 percent

U.S. Development Plans

Location	City	Opening Date
Downtown Crossing	Boston	Sept. 2015
King of Prussia Mall	King of Prussia, Pa.	Nov. 2015
Staten Island Mall	Staten Island, N.Y.	2016
Burlington Mall	Burlington, Mass.	2016
Danbury Fair Mall	Danbury, Conn.	2016
Freehold Raceway Mall	Freehold Township, N.J.	2016
South Shore Plaza	Braintree, Mass	2016
Willow Grove Mall	Willow Grove, Pa.	2016

lower than Old Navy and 20 percent less than cheap-chic rival Forever 21.

H&M sells an annual average of \$5,250 worth of clothes per square meter in Britain, according to Bernstein, while Primark sells approximately \$8,200 worth. Average item price at Primark is \$5.99 compared with \$16.55 at H&M. Nomura researchers compared global net sales per selling square foot at \$755 for Primark and \$465 at H&M.

H&M has the edge, however, when it comes to total market share. Euromonitor data indicates that H&M's share of the global clothing and footwear market in 2014 was about 1.9 percent; Primark's share was less than one-tenth of a percent, suggesting the latter has some ground to make up.

THE INSIDE TRACK

Ken Morris, principal at Boston Retail Partners, visited the Primark store at Boston's Downtown Crossing the weekend after it

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opened and was “blown away” by the transformation of the former Filene’s flagship.

Along with calling out the revamp of the store as having “an industrial edge, packed to the rafters with product,” Morris believes Primark’s decision to locate in Boston — where there is both a high concentration of Irish Americans and a college student population believed to be higher than any other U.S. metro area — will help.

“We’ve been recommending to retail clients for some time now that they focus on selling to my daughter, not her mother,” Morris says.

“Primark is doing just that — delivering fun fashion and unbelievably low prices. Young people on a budget will love the prospect of taking home five items for \$30.”

While Morris stops short of predicting unqualified success in the United States, he insists Primark has “done their homework” and will do what they can to steer clear of mistakes made by earlier British entrants.

“Clearly they’re floating a trial balloon here and they’ll see if it flies,” he says. “No question the logistics will be tougher to manage than in Europe ... But if they expand wisely, the concept will resonate.”

Tiffany Hogan, a London-based analyst for Kantar Retail acknowledges that competing stateside will be a new ballgame.

“They have a strong value proposition and shoppers will gravitate toward that. With a broad mix of product, they really serve the whole family, and that puts them in competition with the likes of Target, Walmart and Kohl’s,” Hogan says.

“Children’s apparel may be the best category no one is paying attention to. With children using clothes for the shortest period of time, value-focused parents may find great bargains in Primark’s low-priced options.”

The one area where Hogan thinks Primark could get tripped up is e-commerce: The company doesn’t engage in it, and has no plans to do so. Primark executives have said repeatedly that the brand’s prices are too low to support the additional costs of operating online. While Hogan acknowledges that the rationalization

makes sense, she’s not convinced that today’s “always-on” digital shopper will be as forgiving.

Moreover, she casts some doubts as to how Millennials will react to the “turn and burn” practices that characterize fast fashion. “Shoppers have real concerns about sustainability that don’t mesh with disposable fashion,” Hogan says, while acknowledging “a trend toward putting together outfits that consist of one or two high-end classic pieces mixed with low-cost basics or a trendy item. It’s conceivable that shoppers will adopt this approach to justify wearing something just a few times.”

COMPETITIVE CROSSHAIRS

Primark’s U.S. expansion strategy calls for acquiring and overhauling sprawling stores in suburban malls. Given its already tight margins, that could put extra pressure on the business. There’s also speculation that — as a foreign retail company — Primark may have to pay higher taxes than its U.S. competitors, and several industry observers question the depth of Primark’s pockets.

Analysts agree that Primark needs to gain traction quickly. A rumor that circulated last month about Primark looking to secure a Manhattan location created excitement, but for now the company is expected to continue to seek out locations along the I-95 corridor. Chicago is mentioned by some as a probable locale for the company’s first foray west.

In early September the company opened a distribution center in Bethlehem, Pa., that will be operated by logistics company Exel. The facility is centrally located and well-situated to serve as the cornerstone for planned Northeast stores.

While Primark is accustomed to slim margins, several analysts point out that the company may be taking a large initial hit as they introduce the concept to U.S. shoppers and that the cost of importing goods will eventually need to be built into prices. Will that raise prices dramatically? Probably not, but “low price” is Primark’s calling card.

And the company will have its work cut out as it tries to weave its way into the public consciousness. Primark has traditionally gone light on marketing, but it may find that it takes more than advertising in local publications and at bus stops to give a rookie a legitimate shot at the big leagues. **STORES**

Primark Prices are ...

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33% below Old Navy

20% below Forever21

Source: Sanford C. Bernstein

Global Sales Per Square Foot

Primark \$755

H&M \$465

Macy’s \$175

J.C. Penney \$140

Source: Nomura

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