

ANALYSIS

The new department store rivals

Entrepreneurs Philip Day and Mike Ashley both seem determined to disrupt the department store market.

Becky Waller-Davies assesses their chances of success

Whenever a struggling brand is on the chopping block, maverick entrepreneurs Mike Ashley and Philip Day go head-to-head in the race to buy it.

There was BHS, Austin Reed and now Jaeger – which Edinburgh Woollen Mill owner Day looks like the frontrunner to snap up out of administration.

It is understood that both have their sights set on the department store market. Day is in the process of establishing his eponymous new chain, Day's Department Store, while Ashley, who has stakes in established high street players Debenhams and House of Fraser, is

rapidly growing his Flannels chain into a premium destination. But how do their strategies compare – and how successful might they be?

Game plan

Philip Day

The first Day's Department Store is set to open this month in the Welsh market town of Carmarthen.

The 16,900 sq ft store will take the place of the former BHS in Guildhall Square in the centre of the town and will house Day's brands Peacocks, Edinburgh Woollen Mill (EWM), Ponden Mill, Jane Norman, Austin Reed and Golf Shop, as well as its own in-store restaurant.

Day has been tight-lipped about plans for the concept. However, it is understood that he is planning to roll it out.

The EWM chief has previously shown interest in the department store sector and was in talks about rescuing Hoopers in Carlisle back in 2012, with plans to trade EWM Group brands alongside third-party labels. The talks stalled however, and a mystery buyer took over the Hoopers store late last year.

Day does have previous experience in housing EWM Group's brands under one roof.

Retail analyst Graham Soult points out Peacocks, EWM and Ponden Home are combined in its Fox Valley store in Sheffield, and the three brands also trade in the Haskins Retail Centre in Shepton Mallet in what Soult calls a "pseudo-department-store format".

Mike Ashley

Ashley's plans are all together murkier. With stakes in House of Fraser and Debenhams, his interest in the department store market is just as intriguing.

He upped his stake in Debenhams, which now stands at just over 16%, three times during March.

Meanwhile, he has been building Flannels into a shopping destination, with

18 stores including one that is poised to open on London's Oxford Street.

While Ashley's Flannels appears to be a straightforward play for the premium fashion market, the purpose of his stakes in department store chains House of Fraser and

Debenhams are harder to gauge.

While any arrangement would allow him the leverage to influence how Sports Direct stock is sold in Debenhams, through which it operates seven concessions, his interest in the retailer is different from most.

Instead of just buying shares, Ashley – via Sports Direct – holds options in stock, which give him the ability to buy shares at a future date.

He is therefore essentially betting on the performance of Debenhams' share price, which is currently near a six-year low.

This, in addition to his 11% stake in the struggling French Connection, paints a different picture from Day's strategically sound steps into a differentiated department store offer.

Brand power

Philip Day

Day has owned Edinburgh Woollen Mill since 2002, when he gained control of it via a management buyout.

His first acquisitions were of homewares brands Ponden Mill and Rosebys, which he then merged to create Ponden Home. He began adding value fashion to his roster in 2011 when he bought Jane Norman out of administration.

In 2012 he added fellow value fashion retailer Peacocks to the mix.

Day then changed tack somewhat, going after brands which had a more natural fit with EWM's older customer base.

In 2016, he acquired the 116-year-old heritage brand Austin Reed, a deal that also brought with it sister retailers Country Casuals and Viyella.

And he is currently front-runner to pick up another heritage chain, Jaeger.

His traditional brands include Isle, James Pringle, PG Field and The Cashmere Shop, all

16%

Mike Ashley's stake in Debenhams



PHILIP
 'The Peacock'
DAY

To read the full analysis of
Day versus Ashley, head to
Retail-week.com/Showdown



“Day may need to introduce some external labels to bulk out the offer”

**Anusha Couttigane,
Kantar**

of which sit comfortably alongside EWM, Austin Reed, Country Casuals, Viyella and, potentially, Jaeger.

Mike Ashley

Ashley may be just as acquisitive, but, his deal history appears to lack the strategic overview of Day's.

His recent acquisition of Agent Provocateur raised eyebrows, while his bid to gain control of value retailer FIndel ended in tears.

Aside from his much-publicised role at the helm of Sports Direct, Ashley has been slowly building his portfolio of fashion brands from Firetrap to Full Circle, as well as taking a stake in French Connection.

Ashley also has a controlling stake in Flannels, which many see as a likely home for his surprise purchase of Agent Provocateur. However, Ashley has remained quiet on this front.

Track record

Philip Day

Day's track record of reviving brands is fairly successful. Peacocks has gone from strength to strength since he bought it out of administration in 2012, with sales and profits up over the past few years – group sales increased 5.1% to £369.7m in the year to March 2016, and pre-tax profit reached £67.9m.

That growth has been achieved with the help of substantial investment from EWM, reported to have reached £150m by early 2015, allowing the brand to rebuild its store portfolio and flourish.

In contrast, after buying Jane Norman out of administration in 2011, Day once again put it through the process in 2014, shedding its debts. He now operates it via concessions and online, as well as selling Jane Norman product in Peacocks.

Day also purchased textiles business Rosebys out of administration in 2008, later merging it with his furnishings company, Ponden Mill, to create the 100-store Ponden Home chain.

Mike Ashley

Ashley's track record is much more mixed.

His strategy for building up his Sports Direct empire has been underpinned by acquiring second-tier sports brands, but his acquisition of fashion brands such as Crafted, Fabric, Golddigga and Hot Tuna seems to lack logic.

These brands, no matter how Sports Direct describes them on its website (Kangol is “a super cool, premium headwear and apparel brand and leading icon of street style”, while Soviet is aimed at the “fashion-conscious ultimate lad”), have been bled dry of whatever equity they possessed in the noughties.

Lately, Ashley has turned his hand to luxury fashion, housing brands such as Michel Kors and Versace in his Flannels fascia and snapping up Agent Provocateur.

Ultimately, it's hard to judge his track record because of the schizophrenic nature of his investment strategy.

Who will win out?

Because Ashley's and Day's business plans are divergent, it's impossible to compare like with like. Instead, we need to assess their viability on their own terms.

Philip Day

Day's Department Store divided expert opinion when it was first revealed. Retail Week Prospect's Rebecca Marks was firmly in the negative camp and termed the plan “illogical”.

“Given the volatility that established and well-loved department stores have had to experience, as well as the sheer investment continuously required to keep them above water, it seems illogical for a new player to emerge and try to compete,” she said.

Marks also attacked Day's roster of brands.

“While Day's comes armed with a handful of its owned brands, they don't attract a similar customer market, making it even harder for the group to drive footfall through the premise it's already known for,” she added.

“Additionally, the winning formula for department stores these days seems to be their beauty and gift offers, neither of which the business is known for embracing.”

Kantar senior analyst Anusha Couttigane sees Day's plans in a more positive light.

“I am quite optimistic about it,” she says. “The main challenge is that there is a gap in menswear and that the brands are quite polarised. Edinburgh Woollen Mill and Austin Reed represent an older, more affluent customer, while Peacocks and Jane Norman are at the value end of the market. He may need to introduce some external labels to bulk out the offer.”

Couttigane believes that the department store format is a viable way of revitalising many of the brands that Day has picked up.

“A mix of private labels owned by one business is really interesting,” she says. “He can change the allocation of space depending on locality, which you can't really do

in a traditional department store as you have contracts with concessions.

“With that model, if you think one brand is under-performing, it is a lot harder to lift it up. But you don't have that problem if you own all the brands under one roof.”

Mike Ashley

The viability of Ashley's plan is much more difficult to assess. Although it may appear as though he has a long-term game plan in place, Global Data group research director Maureen Hinton and Couttigane label Ashley's strategy as having more to do with keeping his fingers in various pies than making a major play for another market or company – he already has Sports Direct to contend with, after all.

“Some investments are purely opportunistic,” Couttigane says. “It suggests he doesn't want to get too involved. The assets he's bought look like wider investments and they give him a strategic advantage over his rivals and a much better view of the wider environment.”

Hinton offers a similar explanation of Ashley's strategy. “It is almost as if he is just influencing,” she says.

While both Day and Ashley are extremely acquisitive, Day appears ultimately set to win the department store battle. Ashley is focused on deal-making and influencing, but Day has a clear game plan. How successful it will be rests on how he rolls the dice.



★ **MIKE** ★
‘Mop it up with Flannels’
ASHLEY