

THE BIG STORY

Can Sports Direct score again?

The retailer has a long to-do list to get investors and customers back on board. **Grace Bowden** reports

The Sports Direct saga took an unexpected twist at its annual general meeting in Shirebrook last week.

Amid growing investor dissent in the weeks preceding the meeting, the retailer's embattled chairman Keith Hellawell defied critics to edge an overall vote of confidence from independent shareholders.

After losing a similar vote 12 months ago and pledging to quit had history repeated itself, Hellawell has done enough, for the time being at least, to placate shareholders and buy himself – and the under-fire retailer – some time.

Yet despite reshaping its executive team, appointing workers' representative Alex Balacki to the board and unveiling a strategy to become the 'Selfridges of sport', questions persist over Sports Direct's use of zero-hours contracts and working conditions at its Shirebrook warehouse.

So what does the controversial retailer need to do to build on the shareholder vote and return itself to former glories?

Refining strategy

For Peel Hunt analyst Jonathan Pritchard, the number-one priority for Sports Direct should be executing its strategy to become a more premium sports retailer.

"Corporate governance and warehouse issues have made the retailer uninvestable for some, but realistically, could either of those issues get any worse?"

"Whether the retail business has got momentum will be what makes or breaks the share price now," he says.

Retail Week Prospect senior analyst Rebecca Marks agrees. "While Sports Direct was once a 'go-to' destination for sportswear with exclusive brand product, it lost its niche through disputed supplier arrangements, which led the way for its main competitor, JD Sports, to win them over instead," she says.

The retailer released a trading statement that was devoid of figures on the day of its AGM, but insisted that its new-generation flagship stores "continue to exceed our expectations".

Pritchard believes the refurbishment programme is much more about getting suppliers and shareholders back on side than it is about wowing customers.

"In the short term, the new flagships are not going to make much difference to your average Sports Direct shoppers," he suggests.

"They won't change perception overnight – there are only a dozen or so of them – but they have to do this to get manufacturers on side, which may encourage them to return to providing higher-quality product and in turn generate the profit growth that will create value for shareholders."

But is Ashley the best person to deliver these results for the business, or should he further bolster a boardroom that, even with the appointment of chief financial officer Jon Kempster, looks threadbare at best?

"While Ashley has shown his ruthlessness through building Sports Direct as he has, it's

Despite all the bad press and Ashley's call before Parliament, Sports Direct's core target market is arguably more concerned with price than ethics
Rebecca Marks, Retail Week Prospect



Sports Direct, Aintree

arguable that it's time for him to accept that he can no longer do this on his own," Marks argues.

"Whether Ashley drives the business to become the 'Selfridges of sport' or just accepts that it's very much viewed as a discounted, low-cost retailer, what Sports Direct needs to win shareholder confidence back is some solidity.

"But regardless of any new hires at the top, it is questionable whether Ashley's lack of openness and acceptance to change will ever secure confidence if its performance continues to descend."

The Mike Ashley show

Drafting in canny retail operators to bolster the board and open lines of communication would no doubt ease shareholder anxiety but, in reality, Ashley is likely to run the show for a long time to come.

The Newcastle United owner has certainly gained his fair share of attention over the past year – be it for his investments in businesses ranging from Game to Agent Provocateur, or his notorious binge-drinking sessions.

However, Pritchard believes that despite the controversy he attracts, the tycoon is the man to return Sports Direct to the top of the sports retailing tree. "Mike is absolutely the man to run Sports Direct – Dave Forsey was very good and he fell on his sword last year, but Mike 'is' Sports Direct ultimately," he says.

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Southampton's Selfridges of sport?

Sports Direct founder Mike Ashley has long repeated his desire to transform his business into the 'Selfridges of sport'.

Indeed, when the retailer unveiled its full-year profits back in July, Ashley proudly declared to analysts: "It's clear we have smashed the ball out of the park with our 'Selfridges of sport' concept."

If that bold claim is to be judged against one of its newest stores in Southampton, it would be hard to disagree with the self-made billionaire.

Sports Direct has only opened around a dozen of these newly refurbished stores as it ramps up efforts to rejuvenate its image among suppliers and improve trading performance.

This one in Southampton opened earlier this year after Sports Direct relocated out of Hammerson's Westquay shopping centre and into a larger high-street unit, previously occupied by collapsed department store chain BHS.

And Sports Direct has sought to replicate the department store feel over its two floors.

The ground level houses mainly running shoes and training gear, with large imagery of Mo Farah and Anthony Joshua promoting Nike and Under Armour respectively – which will no doubt please those suppliers.



There's even a small area dedicated to the famous red and white striped shirts of the city's football club.

Towards the back of the store comes the USC department, representing almost a shop-in-shop, with different brands including Pretty Green, Relay, Jack & Jones and Sol Cal all given plenty of space and signage.

Beyond sport

Sports Direct is moving increasingly into the JD space, with a much deeper range of fashion-focused footwear, featuring the likes of Lyle & Scott, Vans and Penguin.

Its fragrances range is equally impressive, taking up much of the back wall in a bright, clean manner that would be more expected of a Superdrug or a Boots rather than Sports Direct.

Upstairs, the store boasts specialist departments, including its football 'boot room' and Field & Trek for adventure sports, hiking and walking equipment, as well as golf, tennis, cricket and equestrian sections.

Sports Direct also shows off its partnerships with brands such as Disney in a well-stocked childrenswear department.

While it does not pretend to scale back completely from the 'stack 'em high, sell 'em cheap' mentality, particularly when it comes to the merchandising of brands such as Lonsdale and Slazenger, the Southampton store represents a step in the right direction in Sports Direct's journey to become the 'Selfridges of sport'.

If Ashley can eventually roll out this format across the UK, perhaps he will indeed have "smashed it out of the park".

LUKE TUGBY



"He's built it from scratch. Anybody else coming in and trying to understand it would have a tough job.

"As a company, Sports Direct has had a lot of ups and downs, it has undoubtedly had a strategically poor period, but I wouldn't bet against him to turn the performance around."

Be that as it may, the retailer continues to be dogged by allegations around its working conditions – Unite picketed its AGM and insisted Sports Direct failed to fulfil pledges it made around improving working conditions last year.

Although Hellowell said he would meet with Unite, he stressed that the business would continue to offer zero-hours contracts.

Given that he was re-elected by independent shareholders later the same day, it's arguable that this issue is not a priority for some stakeholders.

"Despite all the bad press and Ashley's call before Parliament, Sports Direct's core target market is arguably more concerned with price than ethics – and the former is something which Ashley ensures the business keeps delivering on," Marks concludes.

The retailer certainly has a long to-do list if it is to build on Hellowell's vote of confidence, but keeping suppliers sweet and driving its store refurbishment plan can help it score with both investors and shoppers once more. **RW**

