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What HoF will be like under Ashley

The Sports Direct tycoon has realised his dream of owning a department store chain with an audacious pounce on House of Fraser. **Becky Waller-Davies** considers the implications

Life has not run smoothly for Sports Direct mogul Mike Ashley since he acquired House of Fraser out of administration for £90m this month.

Ashley has finally got his department store prize years after he was first understood to be in the market for one, but it has not been plain sailing for the Newcastle United owner.

There has been much bad feeling as a result of Ashley's refusal to pick up bills left unpaid by the retailer's former owner, Chinese conglomerate Sanpower.

While this is often standard practice in a pre-pack administration, Ashley's wealth and hopes that he would make

a gesture of goodwill to suppliers has counted against him.

The entrepreneur is used to picking up down-on-their-luck businesses for a song, but many House of Fraser suppliers are relatively robust and cannot be bullied.

Some suppliers are feeling mutinous: brands including Jigsaw and Mint Velvet are understood to have removed their stock from House of Fraser stores.

One organisation that is locked in confrontation with Ashley is the logistics giant XPO, which operates House of Fraser's Wellingborough and Milton Keynes distribution centres.

As revealed by Retail Week, employees at the warehouse downed tools after Ashley refused to pay outstanding bills. Around 600 employees are now in redundancy consultation because of the standoff.

At the time of writing, the warehouses are still not functioning and customers are being advised to visit the website of Flannels, Ashley's upmarket boutique, to browse designer fashion.

But as the fallout from House of Fraser's collapse continues, how might Ashley rebuild the business to realise his ambition of creating a "Harrods of the high street"?

Strategy and proposition

Ashley hinted at some of his plans to create "the Harrods of the high street" in comments to *The Sun*.

He said: "In Harrods you get some exceptional services. What we would like to do is introduce a 'concierge click and collect' at House of Fraser.

"When you go online and say you want to collect goods in-store, you should be able to book a time, book a changing room and book a stylist. You get that kind of personal shopping service in a Harrods.

"There's no reason why it couldn't be rolled out nationally across House of Fraser."

For all the latest developments
at House of Fraser
Retail-Week.com/HoF



Philip Day also wanted to buy
the department store chain



He added that House of Fraser needs more luxury and premium brands to differentiate it in the tough department store market.

He said: "We think the biggest and most important thing House of Fraser is missing is luxury brands. We think it will make a big difference. It is not taking away from House of Fraser but adding to it. If you get the right product, it is not on the shelves for long."

Ashley, who also operates luxury retailers Flannels and Cruise, said he was considering turning entire House of Fraser floors over to Sports Direct or Flannels.

'Harrods of the high street' is a bold ambition and although they operate in different sectors of the market, there are some striking parallels between House of Fraser and Sports Direct that could indicate how Ashley plans to get the beleaguered department store chain back to full strength.

Over the past few years, Ashley has focused on moving Sports Direct away from its 'pile it high and sell it cheap' origins to a more upmarket and digitally enhanced proposition. He has appointed a head of elevation – future son-in-law Michael Murray – and opened a handful of 'new-generation flagships' with a more premium offer and layout.

He has brought heavyweight suppliers back onside by doing so. This is a strategy he could replicate at House of Fraser, which has failed to realise its plan of being a 'house of brands'. Of late, it has relied heavily on discounting to shift stock.

As well as re-establishing the department store group's place in the hearts of consumers, Ashley's acquisition will fit in with his wider ambitions.

His acquisition of brands such as Agent Provocateur and well-executed rollout of Flannels indicate his ambitions to develop his position in the premium sector.

Given Sports Direct Group's premium-lifestyle division delivered a 42% rise in sales last year to account for almost 5% of total group revenue at £162.1m, Ashley has a good base from which to build on House of Fraser's heritage and property in order to supercharge expansion of his upscale operations.

Store portfolio

Ashley has taken on the entirety of House of Fraser's 59-store estate and intends to keep around 50 stores open. He has since drafted in CBRE to advise on "all property-related matters".

Mike Ashley has big ambitions
for House of Fraser



House of Fraser had previously planned to close 31 stores through a controversial CVA, but Ashley's acquisition appears, for now at least, to have given those stores a reprieve. This week the retailer said it would keep the flagship Oxford Street branch open – it had been slated for closure under the CVA.

Recently ousted House of Fraser chairman Frank Slevin said in May the retailer's future hinged on "creating the right portfolio of stores that are the right size and in the right location".

Ashley clearly has a different interpretation of what that means, particularly when it comes to the future of key locations such as Oxford Street.

Nick Symons, partner at MMX Retail, believes any changes to the portfolio

will be shelved until after the golden quarter. "I can't see Mike Ashley closing any stores pre-Christmas. He will want to run off stock and sell that through Christmas," he says.

Ashley could yet be thwarted by rival Philip Day, however. The Edinburgh Woollen Mill owner had also hoped to buy House of Fraser.

He is understood to be in discussions with more than 15 of its landlords about taking over leases or purchasing buildings outright to run under the Days brand.

Because House of Fraser entered administration before being purchased by Ashley, leases and rents are currently up for negotiation and any pre-existing agreement no longer stands. Buildings are governed by a 12-month licence held by administrators EY, and landlords would have to go to court to regain control of the buildings.

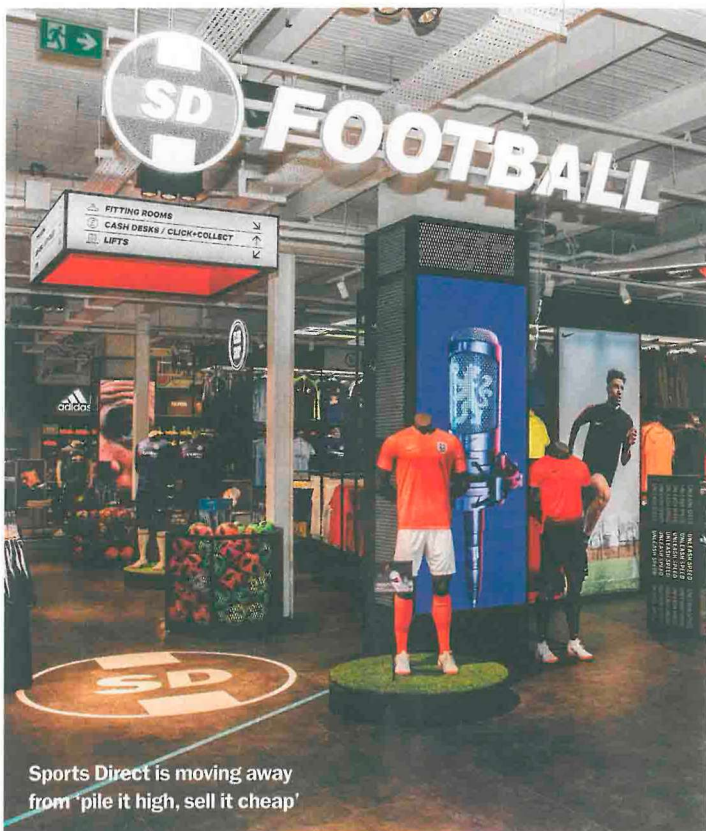
I can't see Mike Ashley closing any stores pre-Christmas. He will want to run off stock and sell that through Christmas
Nick Symons, MMX Retail

Jobs and management

At face value, there could be good news for at least some House of Fraser store staff as a result of Sports Direct's swoop.

As well as the 5,000 people employed directly by House of Fraser, another 12,000 are dependent on it for their employment in concessions. ➔

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Sports Direct is moving away from 'pile it high, sell it cheap'

For House of Fraser's central staff and leadership team, prospects must be more uncertain

Again, given Ashley's interest in working with sought-after third-party brands, the future of some of them at least could be more secure – however, his clashes with some existing partners indicate there could be turbulence to come.

For House of Fraser's central staff and leadership team, prospects must be more uncertain.

Sports Direct emphasised in its most recent annual report how its premium-lifestyle division "is supported by our group-wide centralised commercial and support functions, giving the benefit of scale and operating efficiencies".

There will undoubtedly be crossover and duplication of such functions in House of Fraser's head office, so job losses there may result.

Slevin – always seen as Sanpower's man – departed abruptly in the aftermath of Ashley's takeover, and while other senior staff are understood to have transferred over to Sports

Direct, it is assumed they will not last long.

Chief executive Alex Williamson was only appointed in May 2017 and his lack of retail experience – he formerly ran sporting estate Goodwood – raised eyebrows at the time. His tenure has been a baptism of fire and he has won admiration from his colleagues for his resilience and leadership in the face of uncertainty and adversity.

As he takes control, Ashley is likely to prefer to have trusted lieutenants around him to lead a revival. Key members of Ashley's team include Murray, who is leading Sports Direct's 'elevation' strategy, and Liam Rowley, head of strategic investments.

Concession partners

House of Fraser's many concession partners now have a very different operator to do business with.

The good news for them is that the Ashley of two years ago appears to be a changed man. Gone are the allegations of mistreatment of staff, wads of £50 notes and tumultuous relationships with big-name partners.

In their place are a professionalised management team and productive partnerships with brands that could easily sell their own stock or form exclusive retail partnerships with rival powerhouse JD Sports.

There is nervousness about Ashley's plans and outright anger over his failure to so far settle debts racked up by the former owners

While Ashley's purchase of House of Fraser may provide some concessionaires with a degree of certainty, there is nervousness about his plans for the business and outright anger over his failure so far to settle

debts racked up by the former owners.

Businesses as diverse as XPO and Mint Velvet have protested at this turn of events. While brands that trade well are in a relatively strong position, underperforming brands will be given short shrift by Ashley.

Earlier this week, luxury brand and retailer Mulberry disclosed that it is booking a £3m hit as a result of House of Fraser's collapse. It will not be the last concession partner to suffer as a result of the administration.

Ashley has form in making lofty ambitions a reality, but there is still more to do before House of Fraser is anything close to being "the Harrods of the high street". **RW**



What does the deal mean for Debenhams?

Ashley has long held stakes in House of Fraser and Debenhams. He holds 29.7% of the latter – just under the 30% threshold where he would have to launch a formal takeover bid.

It is not yet known whether Ashley will keep his Debenhams stake, decrease it or sell it altogether. There would be no regulatory requirement for him to dispose of the stake and there has been no guidance from Ashley himself on the matter.

The two groups are distinct enough to coexist, especially if Ashley continues to pursue House of Fraser's third-party brand strategy, which would be a logical step. House of Fraser is traditionally a more premium business.

Trading at Debenhams, itself a turnaround case, has been hit over

the last few months by incessant discounting from House of Fraser, which had the knock-on effect of diminishing Sports Direct's most recent full-year profits by 73% as it took a hit on its Debenhams investment.

Although Ashley's decision-making is difficult to predict, if he put a stop to House of Fraser's heavy discounting and re-established its credentials, not only could he reap the benefits of his acquisition but also benefit as a shareholder from an improved performance by Debenhams.

It had been reported that Philip Day was primed to do battle with Ashley over Debenhams – causing its share price to climb – but Day has since denied this, causing the share price to drop again.