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SUMMER 2010



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home comforts

Furnishing fad Frustrated would-be homebuyers are turning to homewares for comfort, but are spurning out-of-town sofa stores in favour of "interior fashion" retailers such as HomeSense, Next and John Lewis. *Noella Pio Kivlehan reports*

Never has the phrase "home is where the heart is" been so prevalent as in tough economic times. With the beleaguered banks' slowdown on mortgage lending helping to push house sales down, at their worst, by almost 50% in 2009, the great British public have stayed put in their homes. But the property industry's loss is the homeware sector's gain, because consumers who might have moved have turned instead to beautifying their abodes.

However, this is a tale of two markets. On the one side, the market for interior fashions has largely flourished, with names such as John Lewis at home, Asda Living and TK Maxx's HomeSense doing well, while the out-of-town furniture sector for large, bulky goods has had it tough. Gone are Rosebys, MFI and Land of Leather, and Carpetright issued a profit warning last month.

Aidan Farrell, head of out-of-town retail agency at Jones Lang LaSalle, says: "The home sector experienced a very significant downturn, which saw a number of business failures during the course of the recession."

Taken as a whole, the market took a battering in the downturn. In its 2010 report on UK homewares retailers, market research company Verdict says the homewares market shrank 3.9% from 2008, to £10.9bn. "The homewares market has been hit hard by the downturn as consumers have focused on the most essential purchases and taken less interest in home improvement," it says.

In its report, Verdict goes on to predict that the market "will shrink by a further 1.9% in 2010, resulting in a decline of £652m since its peak in 2008. This marks a radical change from the situation in the rest of the decade, when strong to moderate expansion was the norm".

Even though levels of consumer

Pretty things: the struggling property market and the downturn have seen homeowners turn to homewares "comfort shopping"

confidence and activity in the housing market have improved, Verdict says this is not enough to boost spending on homewares significantly.

To an extent, retailers agree. Tim Harrison, head of new formats at John Lewis, says: "Although the economic environment turned out to be better than predicted in 2009, consumer confidence remains fragile and we are taking a cautious view on 2010."

Nevertheless, there have been runaway successes in the fashion side of the homewares market. John Lewis at home, which opened its first store in October, has proved to be a triumph (see panel, p20), while Asda Living has 25 stores so far and is planning a further 150 over the next five years.

Speaking at Asda's annual results announcement in February, company chief executive Andy Bond said: "Asda Living continues to exceed our

broader economic and political factors. However, our business is in excellent shape and our customer proposition remains compelling.

"I am confident, even if like-for-like growth does prove challenging, that, overall, Dunelm will continue to grow and to become even stronger."

The Verdict report agrees, stating: "Dunelm is engaged in rapid expansion and is likely to be a threat to high street and out-of-town operators."

Three main reasons stand out for why these chains have succeeded in the downturn: closures in the market; brand power; and consumers' desire to treat themselves in gloomy times.

Joanne Skilton, director of retail and leasing for Capital Shopping Centres, says: "Fewer people will go out and buy three-piece suites, but I can see people buying towels and different colour soaps. It is comfort shopping."

Added to that, Robert Clark, senior

"Fewer people will buy three-piece suites, but I see people buying towels and different colour soaps"
Joanne Skilton, Capital Shopping Centres

expectations. In its own right, our Living format is now a bigger non-food business than a number of high-profile brands. We are very well placed to accelerate when the environment for out-of-town retail improves."

Meanwhile, Dunelm Mill, which has 100 stores and capacity for 200 more, is seen as a darling of the market. After revealing in March that the retailer's pretax profit had rocketed 69% to £46.2m in the 26 weeks to 2 January, chief executive Will Adderley said the results "reflect the strength" of the brand's value. He added: "We expect consumer spending to weaken in 2010 compared with 2009, as a result of

partner at analyst Retail Knowledge Bank, says today's consumer can afford "home enhancement" because it is tied into the disposable nature of goods that has been encouraged by current fashion. "You have the likes of Primark, which does homewares, and the thinking of the consumer is that these goods are an extension of the fashion," he says.

The link with familiar, fashion-related names is proving an important element in the success of certain retailers. Farrell says: "The gap left by the [failed] operator has been filled with the enlarged versions of home offers operated by established retailers such as Next, Bhs and John Lewis Partnership,



THE JOHN LEWIS AT HOME SUCCESS STORY

Since opening in Poole, Dorset, last October, the John Lewis at home concept has "performed above expectations since day one – furniture, textile assortments and electricals, such as kitchen appliances, are selling particularly well", says Tim Harrison, head of new formats for the company.

But this is not just John Lewis pumping up its PR. The numbers speak for themselves: the retailer recently announced that sales of home products at John Lewis department stores were 24% ahead of takings last Easter. Meanwhile, the market has toasted the success of this new concept, saying its strength lies in the brand. Verdict's 2010 report on UK homeware retailers states: "John Lewis remains a key player in the homewares market."

Harrison says the "at home" concept works because it "has shown a smaller format works and has been well received by customers for its convenience in terms of accessibility, free parking and easy-to-navigate size".

He adds: "Poole Retail Park has proved a successful site for our first 'at home' branch. Our property and research team worked to select the location by considering criteria such as catchment, accessibility, tenant mix and car parking. Another 30-50 locations

across the UK have been identified as suitable for the 'at home' format."

Without giving specifics, Harrison admits there have been some teething problems. "Of course we have learned a lot," he says. "The good news is that we have shown our ability to deliver John Lewis customer service in a smaller shop, which is the ultimate test."

After the success of Poole, a 40,000 sq ft site in Purley Way, Croydon (pictured above), south London, is set to open in the autumn, plus two further stores before the end of 2010, at sites yet to be revealed. It has been suggested one of these is Exeter, but Harrison declines to confirm this.

John Lewis has identified up to 50 locations as suitable sites.

Harrison adds: "John Lewis at home competes with retailers in the home and electrical sectors. We know our competitors have a much higher level of coverage in the UK than we do and our research has shown that there are growth opportunities for our business in smaller-format shops, giving our customers convenient access to John Lewis products."

"We think there is a real opportunity for the mid- to premium sector of the market"
Tim Harrison, John Lewis



together with a number of new entrants. The customer is comfortable with these established names and will be assured that the orders placed with them will be fulfilled to their expectations."

This consumer mindset is benefiting the mid-market retailers. According to Verdict, Next will have opened 11 standalone Home stores in 2009-10 and Marks & Spencer opened four last year. The retailer announced in April that its home performance was up 13.3% like-for-like in Q4 2009. John Lewis is on track to open three home stores by the end of 2010.

"We think there is a real opportunity for the mid- to premium sector of the market," says Harrison, "which is why we are delivering more

John Lewis at home shops in 2010."

The closure of other retailers in the market has, of course, helped make room for this expansion. As Verdict says: "The departure of Woolworths, Rosebys and The Pier from the market during late 2008 and the beginning of 2009 has freed up roughly £490m of spending... in 2009 terms. This has lessened the impact of the decline in the market and allowed the survivors profiled in this report to up their share."

However, there is a danger that growth in the middle market could push expansion too far. Verdict's report explains: "Unless, as is the case with John Lewis, retailers are using these formats to fill major gaps in their store portfolios, their effect may be more to erode existing stores' densities than to build incremental business."

So should the seemingly recession-proof fashion side of the homewares market be prepared for failures? Yes, says Retail Knowledge Bank's Clark, but he adds: "If there are failures, they will be among the smaller players – the independents. I wouldn't say there will be many high-profile retailers folding."

Independents would doubtless argue that they offer something different from the bigger retailers, but when it comes to survival in the homewares market, retailers of all descriptions are facing a serious pillow fight.



Retailer Heal's has proved its staying power by celebrating its bicentenary this year, while fashion retailers TK Maxx and Next are set to continue expanding

Homewares retailers: how they compare

Dunelm is slowly gaining ground on Harveys

RETAILER	TOTAL AREA ON RETAIL PARKS (sq ft 000s)		INCREASE IN AREA OVER 12 MONTHS (%)	CHANGE	RANK	2009	2008	2007	2006	2005	2004	2003	2002
	2009	2008											
Harveys	1,610	1,630	-1	▼	16	15	15	15	15	15	13	13	14
Dunelm	1,410	1,190	18	▲	20	22	24	27	29	32	34	45	
dfs	1,050	1,040	1	▲	24	25	26	24	26	27	26	25	
Dreams	1,000	720	39	▲	25	29	34	34	40	45	-	-	
ScS	810	830	-2	▼	29	28	30	30	32	33	31	31	
Bensons	540	170	227	▲	34	-	-	-	-	-	-	-	
Asda Living	530	430	23	▲	35	37	46	-	-	-	-	-	
Furniture Village	470	480	-2	▼	37	35	37	35	34	36	32	32	
Tesco Home Plus	340	310	11	▲	42	43	50	-	-	-	-	-	
Paul Simon	300	270	14	▲	46	47	49	48	48	-	-	-	
Laura Ashley	230	210	12										
Reid Furniture	210	210	0										
CS Lounge Suites	180	160	15										
Harry Corry	180	180	0										
HomeSense	160	70	127										
Sleepmasters	130	130	0										
HomeStore&More	90	40	132										

Considering homewares retailers specifically, Dunelm is by far the biggest success story. In the past eight years, the company has leapt from 45th to 20th place in Trevor Wood Associates' Retail & leisure report, 2010.

As a whole, the report puts B&Q, with floorspace of more than 7.4m sq ft, at number one of the largest non-food retailers. But, in the homewares section, Asda Living has increased its floorspace by 23% over the past few years, as has Tesco Home Plus.

Source: Trevor Wood Associates