

## Homebase and Argos wake up as the sun and the soccer arrive

World Cups and barbecues are good news for retailers like Home Retail Group's duo. And a housing boom doesn't hurt

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Photograph: Alamy - Homebase customers check the paint shelves. The chain is now starting to offer home decor advice at refurbished stores.

Runaway house prices, a strong job market and buoyant consumer confidence: it is a cocktail for retail success not seen since the World Cup opener was played out in Munich's Allianz Arena in 2006. On Thursday, retail chains Argos and Homebase had just toasted bumper quarterly sales as the warm spring weather and the buildup to kick-off in São Paulo stoked sales of garden furniture, barbecues and TVs before a summer of sport.

But just as tournament began in Brazil, Bank of England governor Mark Carney spoiled the party by warning the City that interest rates could move off their historic low "sooner than markets currently expect". By the time Marcelo had scored an own goal, 11 minutes in, the pound had gained against the dollar and the following day the market punished retailers – including Argos's and Homebase's owner, Home Retail Group – on fears a rise in borrowing costs could hit high-street spending.

Home Retail Group was written off a basket case during the recession, as the squeeze on consumer spending devastated sales and profits. But as the green shoots reappeared it was enjoying a nascent sales recovery, with its shares up more than 30% in the past year.

"These businesses have got much more momentum than a year ago," says Conlumino analyst Neil Saunders. "Argos is benefiting from a focus on digital services such as click and collect, which customers want, while Homebase is differentiating itself from B&Q by focusing on the lifestyle end of the DIY market with more soft furnishings and premium brands."

The retail group is also being buoyed by a wider industry recovery, adds Saunders, with DIY and furniture sales back in growth for the first time since the beginning of the crisis.

The group's thoughtful new boss, John Walden, who succeeded Home Retail's long serving chief executive Terry Duddy in March, wasn't in a samba mood he updated investors earlier that day, describing underlying growth of 4.9% and 7.9% at Argos and Homebase as merely an "encouraging start".

Indeed one of the first things Walden, an American whose career has included stints at Sears and Best Buy, has done since taking over is to initiate a business review that some believe could lead to radical shakeup of the FTSE 250 retailer, which was formed from the breakup of the GUS conglomerate in 2006. "As a group we need to figure out what we stand for – why are we a group?" is the philosophical question Walden put to one interviewer.

With combined turnover of £5.7bn, the two chains appear to have little in common other than a shared head office in Milton Keynes. Argos draws its shoppers from the mass market in the C2 and D socioeconomic groups while Homebase, with its Farrow & Ball paint and Habitat chicken bricks, appeals more to the middle classes.

"The combination is not stupid," says Saunders. "But there are no real synergies either. It's not like Waitrose and John Lewis, where the businesses fit hand in glove. It's more of a marriage of convenience."

In the event of a restructuring, Saunders suggests there would be interest in Argos as a standalone business but questions over Homebase. "It's difficult to see a future for Homebase outside Home Retail," he says.

Having run Argos for nearly two years before his promotion, Walden is well versed in the workings of the catalogue chain, which generates the lion's share of group sales and profits. It is almost halfway through a five-year turnaround plan that is seeing its famous laminated catalogues jettisoned in favour of tablet computers in new-look "digital" stores.

The makings of what some analysts consider a shrewd turnaround includes introducing Argos counters in Homebase stores as well as placing mini-shops on busy high streets, and possibly even in train stations, so shoppers can pop in and collect orders placed earlier by smartphone and tablet.

The light at the end of the tunnel is fainter for Homebase, which has been in the doldrums since the recession put paid to bountiful credit, plentiful mortgages and the equity-release plans that had bankrolled Changing Rooms-style DIY projects. In 2014 it made an improved operating profit of £18.9m on sales of £1.5bn, compared with a high-water-mark profit of £114m in 2005.

Walden did not dress up the Homebase figures, describing its gains as "principally cyclical", pointing to a fillip from the good weather as well as a pick-up in high-price items such as fitted kitchens as the housing market recovery once again gives Britons confidence to start spending on their homes. "Unless we either repeat the record-breaking summer [weather] of last year, or England make it to the World Cup final, it's unlikely that Homebase will report a positive like-for-like sales performance in the second quarter," he warned.

GUS bought Homebase from private-equity firm Permira for £900m in 2002, but its book value was written down by more than half a billion pounds in 2008 – an admission that it had overpaid for the retailer. During the lean times the chain received little investment, and shabby stores and scant staffing no doubt helped it finish 99th out of 100 in a Which? poll of best high-street shops.

Last year Homebase started ringing the changes, embarking on a refurbishment programme designed to make its 323 shops more attractive and inspirational to the women that are its most loyal shoppers. "Homebase has not been underinvested in, but it needs to be taken in a new direction," says Homebase managing director Paul Loft diplomatically.

The company's latest thinking can be seen in its refurbished store in Worcester, which boasts new offerings including a free interior design service with City & Guilds-trained decorating consultants helping shoppers create "personalised mood boards" using swatches of flooring, tiling, wallpaper and paint. Afterwards, shoppers can mull over their colour choices in the coffee shop, which now takes pride of place at the front of the store, or browse the large Habitat department. There are also more staff on the shop floor. "We've done a very brave thing in retailing," says Loft. "We have taken product out and given the space over to ideas and services. This cafe occupies prime retailing space." Homebase is spending £25m on refits this year after the dozen stores revamped last year delivered sales uplifts of between 15% and 20%.

"Investment in our stores and use of technology is a vital part of our long-term plan to offer a customer experience that can't be found anywhere else," says Loft, pointing to the digital screens around the store, showing how-to videos of common DIY jobs such as hanging wallpaper. To stretch the £1m spending earmarked for each store he has persuaded its suppliers, including Dulux and Crown, to contribute to the budget: "We said to suppliers: if you join with us we can go further." Loft concedes that Homebase's fortunes are hitched to housing, as a lively market means both buyers and sellers are willing to spend on home improvements: "We are seeing a move upwards [in housing transactions] and our business is heavily influenced by that, with a six-month timelag." Walden may or may not push through major reform; there is no certainty that the review will have a formal outcome. He was keeping mum last week, other than to say it was "progressing well".

Link: [www.theguardian.com/business/2014/jun/15/homebase-argos-wake-up-sun-soccer-home-retail-group](http://www.theguardian.com/business/2014/jun/15/homebase-argos-wake-up-sun-soccer-home-retail-group)