

# The Telegraph

## How Poundland's Jim McCarthy helped change the rag tag image of pound shops

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The Poundland chief executive has transformed the business, but it was family illness that first brought him to the retailer



*Jim McCarthy, who started his career working in a newsagent, is credited with professionalising the pound-shop industry*

Jim McCarthy considers the answer. As he does so, his eyes gradually fill with tears, and a lump develops in his throat. It is rare to see a chief executive emotional, even more so when he is talking about the reasons he joined the company he now runs.

But for McCarthy, his arrival at Poundland in 2006 was a poignant moment. McCarthy had been running Sainsbury's convenience store business and overseeing its rapid growth. However, a series of family bereavements and illnesses led to him reconsidering his work-life balance.

He decided to leave Sainsbury's and head back to the Midlands where his family lived. He accepted an offer to become chief executive at Poundland, based in Wolverhampton.

"I have to be honest, the only reason I left Sainsbury's was family illnesses. It was an awful time. You couldn't write the story," he recalls, the emotion growing.

"For the first time in my life, I put my family first."

The back story to McCarthy arriving at Poundland is relevant to explaining where the discount retailer is today. The company was in a position to attract a chief executive far more talented than it would have otherwise been able to.

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McCarthy went from being one of Justin King's key lieutenants to running a small chain of pound shops.

Poundland was founded in 1990 by Steve Smith, but by 2006 its growth was stalling.

Under McCarthy, the company has been transformed, with an estate of almost 550 stores, and sales in the year to March of £997.8m. He now has aspirations to expand to 1,000 shops across the UK and Ireland, and has just opened Poundland's first store in Spain.

The icing on the cake was the company's successful stock market flotation earlier this year, when Poundland's private equity owner Warburg Pincus and 155 members of the management team sold shares. The float valued Poundland at £750m, with McCarthy himself banking almost £2m from selling down part of his stake. "I got lucky," McCarthy says of his decision to join Poundland. "I didn't realise what a gem it was." Since the float, Poundland's shares have performed strongly, up nearly 13pc on their 300p initial public offer price.

The 58-year-old, who started his career working in a newsagent, is credited with professionalising the pound-shop industry over the past eight years.

Effectively, this meant impressing on Poundland the same high standards that he had learnt from running Sainsbury's Local and T&S Stores, an empire of 862 convenience stores that he ran for eight years before selling it to Tesco.

One of the first decisions McCarthy made was to introduce a system that allowed Poundland to accept debit card payments for the first time. "Customers were leaving baskets unpaid for in the stores," he explains. "So we listened to customers and our colleagues, particularly the long-serving ones who said the number of baskets being left in stores was just too much."

McCarthy also overhauled the management team, poaching his finance director, Nick Hateley, from the Sainsbury's convenience store business. As a result, Poundland's senior team is made up of directors with experience of working at other leading retailers. The chairman, Andrew Higginson, is the former finance and strategy director of Tesco.

However, perhaps McCarthy's most important move was to seek to build relationships with major suppliers such as Cadbury.

After travelling to the US to analyse how discount chains such as Dollar Tree work, McCarthy and his team decided Poundland had to learn to work with the biggest suppliers, rather than treating them as the enemy.

Today Poundland works with the leading fast-moving consumer goods brands to develop unique pack sizes that it can sell for £1.

"The rag tag and bobtail image of pound shops has changed and Poundland has been central to that," McCarthy says.

"I think the demise of Woolworths raised our profile. I think we occupied 90 of more than 800 Woolworths stores over a three to four-year period. They tended to be very good sites of such a size they were quite visible.

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“But I think, more fundamentally, we have worked very hard at delivering that amazing value. The brands in 2006 were represented in stores, but not like they are today. About a third of our core SKU count [number of products for sale] are brands. They are very important.”

Poundland’s approach to selling brands has been occasionally controversial because it will sell pack sizes that are marginally smaller than the ones on offer in Tesco, Asda, Sainsbury’s and Morrisons. However, the company’s business model works precisely because it is flexible on the brands and sizes it sells. While other retailers change their price, Poundland changes its products.

“If you can’t show amazing value, we delist it, we don’t sell it. So we delisted Nescafe Brazilian blend after we sold five million of it in a 100 gram jar,” says McCarthy, having removed it from sale after the price of coffee shot up.

“The supplier wanted to pass that on to us and we absorbed and absorbed and absorbed until there came a point when we couldn’t make any money out of it. It represented 1.6pc of our sales at that time.

“I sweated it. That was a big line, probably our number one line at that point. But what happened? Eight months later we got Maxwell House, the number two brand, with Classic Roast, and supplemented that with Red Mountain.

“So we were selling 2m units less but making more money. The other 2m of lost sales dissipated into other product categories, so actually the margin moved a bit for us.”

McCarthy says Poundland can do this because its customers don’t expect to complete a weekly shop in its stores. Instead, they spend on average £5 per visit, and McCarthy says he wants to offer a “treasure trove” or “Pandora’s box” of discounted products.

The Poundland boss, whose Midlands accent has softened over the years, begins to talk enthusiastically through the seemingly random collection of products that the company is selling for £1 – a golf buggy battery charger, its new Jane Asher bakery range, a collection of Marvel cartoons on DVD, Donnay socks, and coloured wigs.

Although Poundland may not seek to offer a weekly shop with its at-times-unusual lines of stock, it is having an impact on the supermarkets that do.

Tesco recently reported its worst quarterly trading figures for 40 years, while Sainsbury’s like-for-like sales are falling for the first time in almost a decade as shoppers desert core supermarkets in favour of buying discounted groceries from Aldi and Lidl and cut-price toiletries and accessories from discounters such as Poundland.

As a result, McCarthy says suppliers are looking to do more work with Poundland. “We get support from suppliers, and we are direct with virtually any supplier of any standing in the UK. Why wouldn’t that continue to be the case?

“You have Aldi and Lidl, non-branded sellers largely, and you have got a decline in volume going through ‘the big four’. So that branded market is not being made up through Aldi and Lidl, therefore the discounters are more important to them than ever before.”

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Poundland now works with 1,000 suppliers, compared with 700 when McCarthy joined, and this increased support from manufacturers is helping to put the discount retailer into a virtuous circle that will drive further growth.

“Our scale means that we can get exclusive products,” McCarthy says. At Christmas Poundland offered a version of Cadbury’s Milk Tray and sold 2m.

Worryingly for the supermarkets, McCarthy also says Poundland works well in tandem with Aldi and Lidl.

“We are very good bedfellows with Aldi and Lidl,” he explains. “Wherever they are, we do really well. We are both footfall magnets. Because we do a lot of brands and they don’t, it’s quite complementary.”

McCarthy believes the rise of discount retailing in the UK in the past few years is due to the squeeze on household income as the cost of living has grown faster than wages. This has caused families to plan their shopping and spend more carefully, including households in the A and B socioeconomic group. More than one in five Poundland shoppers now comes from these high-income groups.

Aldi, Lidl and Poundland have been able to take advantage of this because their businesses are finally at a scale where they can make an imprint in the market. McCarthy believes the increase in choice for consumers, also driven by the rise of online retailing, means the change in shopping habits is permanent and will not reverse as the economy improves.

“I have a lot of people say to me, ‘Oh, you were lucky weren’t you, joining in 2006? [before the recession]’

“Yeah, lucky Jim. Napoleon had lucky generals and hopefully I am one of those lucky people. I have had bad luck as well, but generally speaking I have had a lot of good luck.

“However, the recession is not one of [these cases]. The recession did not help us. It’s much better when the economy is stronger and people are shopping normally. We get the benefit of that footfall in our stores and a better conversion rate.”

With the economy picking up, Poundland is focusing on its next areas of growth. After more than two years of research, the company has begun expansion into Europe by opening a store in Torremolinos in Spain. The store is branded as Dealz, which is the name Poundland uses in Ireland.

“If we can get Europe right then in 10 years’ time I think Dealz could be bigger than Poundland,” McCarthy explains. “If it is not, I will be disappointed.”

In the UK, the company is also preparing to move online. Poundland has already built a website that is ready to launch, focusing on products for parties and events. Trials of the website could begin later this year with staff invited to use the service. The launch of an online service will be the latest example of how Poundland has grown up under McCarthy since his emotional arrival in 2006. However, at the heart of it, one thing about the retailer has not changed. Poundland still sells everything for £1. Just be careful how you word it when you ask McCarthy if this will ever change. “We don’t sell £1 products,” McCarthy swiftly responds. “We sell products for £1.”

Link: [www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10948040/How-Poundlands-Jim-McCarthy-helped-changed-the-rag-tag-image-of-pound-shops.html](http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/10948040/How-Poundlands-Jim-McCarthy-helped-changed-the-rag-tag-image-of-pound-shops.html)