

Poundland puzzles over how to keep it cheap and in reach

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CEO Jim McCarthy has to convince the regulator about the merits of its takeover of rival 99p Stores and expand successfully in a crowded market



Jim McCarthy snaps up a bargain at Poundland. Photograph: Martin Godwin for the Guardian

If you gave Poundland's chief executive a quid every time he says "amazing value" while accompanying him to a store, your outlay would be considerably more than the £4.72 that shoppers spend on an average visit.

Checking out the bargain chain's Fulham outlet in west London, Jim McCarthy is gobsmacked by a sudden run on goldfish bowls – apparently being snapped up by students across the UK as makeshift cocktail glasses that can be shared by multiple tipplers dunking in straws. He marvels at other oddball bestsellers for the chain, such as two-for-a-pound Aloe Vera drinks which are selling more than some top drinks brands. And he is gutted that the company has sold out of selfie-sticks despite buying in tens of thousands of the gadgets. "We're getting more in," he says firmly.

Given his background, it is no surprise the amiable 59-year-old knows how to talk a good sales pitch. Starting work, age 12, as a paper boy at newsagents Dillons in his home town of Nuneaton in the Midlands, he worked his way up through the business. He survived various takeovers to become chief executive of what was T&S Stores by the time it was sold to Tesco in 2003. After an attempt at retirement at just 47 when the T&S deal made him a multi-millionaire, McCarthy moved on to run Sainsbury's convenience store business for two years before returning home to the Midlands to run Poundland in 2006, investing a "six-figure sum" in the business. All that experience will come in handy given the challenges he faces now.

McCarthy has kicked off consolidation in the discount retail sector with Poundland's £55m purchase of rival 99p Stores and, if the deal goes through, the company will consolidate its position as the UK's leading single-price retailer. The buy-out of 99p would add 250 extra stores to Poundland's estate of nearly 600 UK outlets, helping make a big stride forward to its target of 1,000 stores here. The company, which topped sales of £1bn this year, also has more than 40 Irish stores and nine in Spain under the Dealz brand.

But the deal requires the approval of the Competition and Markets Authority, which is mulling whether Poundland should have to sell up to 80 shops in areas where it shares customers with 99p Stores. If McCarthy gets his way, 99p Stores' shoppers will certainly see 1% inflation as the sites are rebranded, meaning they will have to pay at least a penny more per item.

The competition regulator is examining whether gobbling up one of Poundland's few single-price rivals will give the retailer more freedom to reduce the offers shoppers get for their £1 – like those two-for-a-pound Aloe Vera drinks.

"Plainly, the thought of changing pricing is not going to pay – that's not how the model works. We all know the public, even more so now than ever before, are aware of price, quality and overall value. To change the Poundland formula by doing something different is not understandable," says McCarthy.

He believes that discounters and low-price retailers may have to close stores or merge, as the plethora of chains – which include Aldi, Lidl, B&M, Wilko, Savers and Home Bargains – cannot all achieve their rampant expansion plans, he says. He wants to kick off that consolidation with the 99p stores buyout.

"As a consequence of a market that is fairly immature, consolidation in the market is inevitable. There is a race for space and too many stores," says McCarthy. "There will be winners and losers but we believe Poundland will be a winner." He says Poundland, which started life as a market stall in the 1990s, could not vary prices from region to region because its deals are dependent on simplicity, efficiency and high sales volume on a national scale.

As McCarthy battles to persuade the CMA to clear the 99p Stores deal, he must convince the regulator he is facing relentless competition from across the market, without scaring off investors who fear shoppers will fall out of love with discounters once they have more money in their pockets.

No doubt with one eye on the CMA inquiry, which will conclude in October, McCarthy says that Poundland faces more competition from the major supermarkets, along with Aldi and Lidl, than it does from the likes of 99p Stores.

He says that competition, particularly on food, has got tougher over the past year as Tesco, Asda, Sainsbury's and Morrisons – the big four grocers – have cut prices on basics such as bread and milk.

Poundland has been forced to stop selling some items where it can no longer offer a better deal than the supermarkets, such as certain loaves of bread. On others – including a six pack of Golden Wonder Crisps or a packet of McVities Rich Tea biscuits – one or more of the supermarkets are matching the £1 price tag.

“Every inch of space has to work for us. If sales drop on a particular line – we do our research on pricing comparisons with the supermarkets and the others – and if value isn’t there and we can’t do a bigger pack size then we have to delist.”

Such talk is likely to soothe the regulator, but McCarthy must also reassure the market.

Poundland last month revealed figures that indicated a fall in sales at established stores this spring, fuelling fears that the fashion for cut-price shopping was fading.

If so, the company’s plans for nearly 400 more stores in the UK might look over-ambitious, not least since rival B&M wants to almost double its size to 850 outlets while Aldi and Lidl are each opening 50 to 60 new stores a year. There are also new players. Former Asda boss Andy Bond recently launched his Pep & Co discounter clothing chain, while Sports Direct boss Mike Ashley is experimenting beyond clothing with the launch of his Mega Value chain.

“The market is there with enough growth in it that clever people are still investing,” says McCarthy, adding that, while average disposable income is on the rise, the government’s ongoing benefit cuts mean plenty of people will have reason to continue to seek out the best deals.

McCarthy puts Poundland’s recent lacklustre sales figures down to a comparison against a bumper spring last year when £10m worth of loom bands flew off the shelves.

“People love value. They have had several years of getting used to the fact that they don’t have to pay top dollar for things.

“There is a tipping point for all customers unless they are daft. If you can buy a bottle of Perrier for £1 in my shop or down the road in a nice-looking shop for £1.50, then why wouldn’t you?”

Poundland online?

Jim McCarthy admits he’s not a user of social media, but he insists Poundland still plans to launch an online store. The company has been developing a site for three years and had hoped to launch ahead of last Christmas, until the boss slammed on the brakes.

“It wasn’t right, yet. I wasn’t happy it was developed enough, sufficiently attractive and easy for people. When we do launch, I want them tweeting about it and sharing it with their friends,” he says.

All retailers are keen to get into the online market, which is experiencing growth far ahead of the high street. But the economics are tricky for “value” stores.

Poundshop.com, an online store started by Poundland founder Steve Smith, faced early difficulties while Primark experimented with selling on Asos before concluding that it could not trade profitably online.

Source : The Guardian

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