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# THE **PENNEY** DOES NOT DROP

One of the largest fashion chains in Europe and the largest clothing, footwear and accessories retailer by volume in the UK, Irish fashion giant Primark reached the shores of the United States after consolidating itself in Western Europe. An analysis.



# 46%

Till FY19, the sale numbers were growing steadily but 2020's pandemic phase pulled them back to FY16 status while Primark's contribution **averaged at 46 per cent** (FY16–20).

# 78%

During Q1 this year, the retail space increased by 0.2 million sq ft with addition of five new stores. As of January 14, 2021, **78 per cent of all stores** occupying 76 per cent of total retail space remained closed.

By **Sanjay Bakshi**

**P**rimark's founder Arthur Ryan opened the first store in the city of Dublin, Ireland on behalf of the Weston family which founded Associated British Foods (ABF) in 1935. This etched Primark's existence in ABF.

Today, ABF is a diversified international group with sales of £13.9 billion. The group has operations in 53 countries across Europe, Africa, the Americas, Asia and Australia; an employee force of 133,000 people; and owns more than 40 consumer brands, some of which sell in more than 100 countries. The group businesses are organised into five segments: grocery, sugar, agriculture, ingredients and retail backed by common industry expertise, operational capability and market knowledge.

The group's business model entrusts local heads and teams to take operational decisions with the corporate centre only providing a framework in which they

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have the freedom and decisionmaking authority to pursue opportunities with entrepreneurial flair. This ensures decisionmaking stays close to the markets and customers, resulting in effective, innovative business solutions. The calibrated role of centre uses short lines of communication to ensure prompt, incisive and unambiguous decisionmaking.

ABF sales and profits respectively grew at a CAGR of 5.6 per cent and 3 per cent in pre-COVID years (2016-19). The big groups often face the pressure to perform in challenging times and ABF lived up to this expectation by retaining a positive CAGR of 0.9 per cent finishing up to FY20—the year disrupted by COVID. Till FY19, the sale numbers were growing steadily but 2020's pandemic phase pulled them back to FY16 status while Primark's contribution averaged at 46 per cent (FY16–20). The group also failed to maintain an upward trend it had achieved in profits after FY17. It ended FY20 with a 3.3 per cent profit margin against an average of 5.9 per cent it had achieved during the five-year period.

### Primark retail

In 1969, Primark opened first store in Dublin under the name Penneys, a name that still continues to trade in Irish

TABLE 1 Primark Group: An Overview

ABF Group	FY16	FY17	FY18	FY19	FY20
Sale (£ bn)	13.4	15.4	15.6	15.8	13.9
Profit (£ mn)	821	1,211	1,022	896	465
Avg no of employees	1,29,916	1,32,590	1,37,014	1,38,097	1,33,425
% of female employees	48	48	51	52	53

SOURCE: Company reports

FIGURE 1 Primark's share in ABF revenues

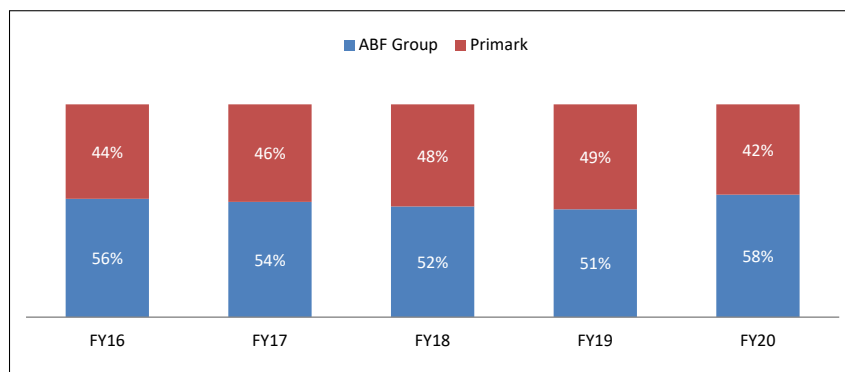


TABLE 2 Sales and Profits: Last 5 Years

Primark	FY16	FY17	FY18	FY19	FY20
Sale (£ bn)	5.95	7.05	7.48	7.79	5.90
Profit (£ mn)	689	729	843	913 <sup>1</sup>	148
No of countries	11	11	11	12	13
No of employees	68,262	73,350	78,016	78,000	75,000
% of female employees	71	69	73	74	76

SOURCE: Company reports; Primark's FY has 52-weeks ending in mid-September

<sup>1</sup>ABF Group's profit is less than Primark's profit due to loss in Group's another business segment



TABLE 3 Retail Expansion Over the Years

Primark	FY16	FY17	FY18	FY19	FY20
No of stores	315	345	360	373	384
Retail space (sq ft '000)	12,342	13,862	14,805	15,642	16,247
Average store size (sq ft)	39,181	40,180	41,125	41,936	42,310

SOURCE: Company reports

territory. However, the name cannot be used outside the Republic of Ireland as it is registered by American retailer JC Penney. As of now, Primark is one of the largest fashion retailers in Europe and the largest clothing, footwear and accessories retailer by volume in the UK.

In total, Primark runs 384 stores across 13 countries, including the US. Primark's range includes womenswear, lingerie, kidswear, menswear, footwear, accessories, hosiery, beauty and homeware. The company has an employee force of 75,000 people of which about 73 per cent are women—a share higher than the parent company.

### Business model

Primark's business model keeps prices low and offers the best value on the high street. Low prices are achieved by doing very little advertising and instead focus on marketing through the Primark website, popular social media channels and store windows. Primark sells its products only through stores and makes ample savings on things like simple packaging.

Primark delivers high quality affordable fashion accessible to everyone driven by 'Amazing Fashion, Amazing Prices'. Although Primark is a brick-and-mortar retailer, it has a strong digital

presence and a high level of customer engagement with 22 million followers across its social media channels.

### Success mantra

More than half of products that Primark sells consist of essential ranges; so, maintaining quality is of utmost importance for the retailer. Equally important is the role played by its product teams which are capable of identifying and delivering key seasonal trends at appropriate time.

A significant growth is also driven by licensed merchandise such as Disney and Netflix, providing a segment leadership position to the retailer. Add to that, the significant growth in beauty segment—one of Primark's fastest growing categories led by its own beauty brand PS—keeps encouraging teams to continue innovating and introducing new products every season.

The retailer believes in staying ahead in the competition by offering distinguished in-store experience to its customers that can be seen in many of its stores having free Wi-Fi and trend rooms. Alongside, its stores in Ireland, the UK, Spain and Portugal have coffee shops, food and beverage offerings and beauty concessions adding to the overall customer experience.

## TIMELINE

**1969:** First store opens in Dublin (Ireland)

**1973:** First store opens in Derby (UK)

**2000:** 100th Primark store opens

**July 2005:** Primark acquires Littlewoods stores

**May 2006:** Store opens in Madrid (Spain)

**April 2007:** Flagship store opens in Oxford Street, London (UK)

**December 2008:** Store opens in Rotterdam (The Netherlands)

**December 2009:** Stores open in Lisbon (Portugal), Bremen (Germany) and Liege (Belgium)

**July 2010:** 200th Primark store opens

**November 2011:** Primark branded concessions open in Selfridges Birmingham & Manchester (UK)

**July 2012:** First store in Berlin (Germany) opens

**September 2012:** First store opens in Austria

**December 2013:** First store opens in France

**September 2015:** First store opens in Boston (US)

**October 2015:** Flagship store opens in Gran Via, Madrid (Spain)

**April 2016:** First store opens in Arese, Milan (Italy)

**April 2019:** Primark's biggest ever store opens in Birmingham (UK)

**June 2019:** Store opens in Ljubljana (Slovenia) – overall 12th but first market in Central Eastern Europe

**August 2020:** Store opens in Warsaw (Poland) – Primark's 13th market

## Business scenario

Primark continued making a mark by growing at a CAGR of 9.4 per cent in sales and 9.8 per cent in profits between FY16 and FY19. With FY20, included the respective CAGRs changed to (-) 0.2 per cent and (-) 31.9 per cent. The profit margin that averaged at 11 per cent of sales between FY16 and FY19 dropped to 9 per cent by FY20 due to a 3 per cent margin realisation on sales it generated during the fiscal.

The business operation remained limited to the same eleven countries for three consecutive years before adding Slovenia and Poland by FY20 to the list of countries where the brand operates. The addition of two new markets during peak of COVID times ensured Primark's intent to expand. The number of employees continued to grow too till pandemic and lockdown conditions enforced a pause in 2020.

## Retail expansion

Primark opened its 100th store in 2000 and took another 10 years to open the 200th store. As of FY20, it runs 384 stores—a store count that has expanded at a CAGR of 5 per cent between 2016 and 2020. Its aggregate retail space increased too, at a CAGR of 7 per cent from 12 million sq ft in 2016 to 16 million sq ft in 2020, expanding the average store size from 39,000 sq ft to

42,000 sq ft.

Despite growing, the annual growth rates of retail space kept on reducing from 12 per cent in 2017 to 4 per cent in 2020. Overall, the expansion trend has resulted in an average annual sale of £18.9 million per store sliding down to £15.4 million at a CAGR of (-)5 per cent and monthly sale per sq ft also dropping from £40 to £30 at a CAGR of (-)7 per cent.

Primark is primarily a Europe-centric retailer having its presence concentrated in Western Europe. Its retail presence pie is dominated by the UK with the largest number of stores as well as retail space, contributing half of both. However, its average store size (39,679 sq ft) stands at the bottom of the list with Germany (57,688 sq ft), France (52,684 sq ft) and Italy (52,400 sq ft) topping the list with relatively bigger store sizes.

Still, the UK's Birmingham High Street has the largest Primark store operating on a retail space of 160,000 sq ft (14,800 sq m) spread over five floors. This store features three dining experiences including the first Primark Café with Disney. The store also features a beauty studio and barbers.

Primark entered its 13<sup>th</sup> market in August 2020 by opening its first store in Warsaw (Poland) and announced plans to open in Bratislava (Slovakia) in 2022.

By entering the US in 2015, Primark reached the first continent outside Europe. As of FY20, the US hosts nine Primark stores with an average store size of more than 52,000 sq ft.

## COVID arrives

The COVID-19 pandemic made all of Primark's 375 operating stores shut down across 12 markets in March 2020. In April when governments announced reopening schedules, safeguarding employees and customers became topmost priority. Rightly so, all safety advice from local governments, considered the least possible standard to be implemented, were followed strictly along with company introduced SOPs.

As scheduled, the stores opened in the months of May, June and July including the opening of 153 stores in England on a single day of June 15. Primark not only took great care in implementing all the required measures but also communicated them to the customers, media and local, regional and national government representatives resulting in mayors and MPs visiting new and reopened stores appreciating Primark's safety measures.

## Quick decisions

The Primark Board made some key decisions during the pandemic period. By March ending, Primark was holding some

TABLE 4 Retail Presence

Country wise presence	2016		2017		2018		2019		2020	
	Store count	Retail area ('000 sq ft)	Store count	Retail area ('000 sq ft)	Store count	Retail area ('000 sq ft)	Store count	Retail area ('000 sq ft)	Store count	Retail area ('000 sq ft)
UK	171	6,362	182	6,835	185	7,125	189	7,449	190	7,539
Spain	41	1,503	44	1,675	45	1,764	46	1,850	48	1,993
Germany	20	1,272	22	1,401	27	1,686	30	1,830	32	1,846
Republic of Ireland	36	1,032	37	1,083	37	1,087	37	1,085	36	1,076
Netherlands	15	679	18	849	19	902	20	971	20	971
France	8	407	11	562	13	649	15	776	19	1,001
US	5	322	8	485	9	507	9	470	9	470
Portugal	9	300	9	300	10	348	10	348	10	348
Belgium	4	166	5	227	6	292	7	372	8	408
Austria	5	243	5	242	5	242	5	242	5	242
Italy	1	56	4	203	4	203	4	203	5	262
Slovenia	-	-	-	-	-	-	1	46	1	46
Poland	-	-	-	-	-	-	-	-	1	45
<b>Total</b>	<b>315</b>	<b>12,342</b>	<b>345</b>	<b>13,862</b>	<b>360</b>	<b>14,805</b>	<b>373</b>	<b>15,642</b>	<b>384</b>	<b>16,247</b>

SOURCE: Company reports

TABLE 5 Q1, FY21 Results

Sale	Q1, FY21 (£ bn)	Q1, FY20 (£ bn)	Growth
ABF	4.80	5.50	-13%
Primark	2.03	2.90	-30%

SOURCE: Company reports; Q1 is September-December

TABLE 6 Store Opening Status

Country	Total stores	Retail area ('000 sq ft)	Closed stores	Closed retail area ('000 sq ft)
UK	190	7,552	190	7,552
Spain	50	2,050	10	368
Germany	32	1,841	32	1,841
Republic of Ireland	36	1,076	36	1,076
Netherlands	20	971	20	971
France	19	996	-	-
US	11	548	-	-
Portugal	10	383	10	383
Belgium	8	403	-	-
Austria	5	242	5	242
Italy	6	307	-	-
Slovenia	1	46	1	46
Poland	1	40	1	40
<b>Total</b>	<b>389</b>	<b>16,455</b>	<b>305</b>	<b>12,519</b>

SOURCE: Company reports \* As of January 14, 2021

£1.5 billion worth of stock in its stores, depots and in transit with no stores to sell them as they were shut owing to the lockdown. As a quick reaction, all new orders to suppliers were cancelled to reduce costs for the sake of securing longer-term success of the business thereby igniting suppliers' concerns over wages. To address the rising concerns, the Board decided on April 3 to establish a fund to cover the wages component of orders that had been cancelled.

Subsequently, in its April 20 announcement, the Board decided to pay for some £370 million of additional orders that were both in production and finished form and were planned to be handed over by April 17. Further on July 31, the Board approved to pay its garment suppliers in full for all outstanding finished garments and to utilise or pay for any finished fabric liabilities. It was also decided to place £1.2 billion worth of orders for the coming seasons based on the trading performance of reopened stores.

These actions reflected the Board's intention to prioritise more funds to support the supply chain as costs began

to mitigate. Stores reopening also helped in regaining confidence further. To put the customer safety measures in place, additional dividers were installed at tills in most of Primark's stores to enable more tills to be opened and to reduce congestion-causing queues.

### India initiative

Primark partnered with St John's Medical College, Bengaluru on its 'My Space' project that was designed to support counselling services for Primark supplier factory workers in South India. In order to dispel myths and stigma about the virus, Primark's team provided accurate information about COVID-19 by creating new webinars delivered by trained medical staff from the medical college. The initiative was expanded and reached more than 130 factories and mills in its supply chain.

### Being human

Primark donated 450,000 products, such as underwear, leggings, t-shirts, footwear, toiletries and towels to hospitals, charities and health workers. Primark teams across the world donated

## LATEST UPDATE

Associated British Foods has **issued an update** prior to entering the close period for its interim results for the 24 weeks to February 27, which are scheduled to be announced on April 20. For the first half of 2021, it **expects revenue and profit** in each of grocery, sugar, agriculture and ingredients businesses to be ahead of both expectation and the first half of last year.

The retail performance in the first half was **"materially" impacted by the restrictions** on movement of people and of trading activity put in place by the UK and European governments. The estimate for the **loss of sales** in the periods of store closures during this period is £1.1 billion. The company expects **Primark sales** in the first half to be **£2.2 billion** and the adjusted operating profit to be marginally above break-even.

The company has **likely reopening dates** for 233 stores in addition to the 77 stores already open, so that 83 per cent of its retail selling space should be trading by April 26. The stores will be offering exciting seasonal ranges for spring/summer.

packs containing items of daily needs to health workers and people working for long hours away from home, in response to the calls from health authorities, including the NHS in the UK and charities. The packs were also offered to the patients who had no means of getting a fresh change of clothes or toiletries from home. The business also distributed 140,000 Easter food products to homeless shelters, hospitals and charities.

### 'Wellness' collection

The 'Primark Cares' initiative inspired an 80-piece 'Wellness' collection, made from organic cotton, recyclable fibres or other sustainable materials, encouraging customers to put their personal wellbeing first through comfort, rest and reflection.

The collection, for the first time ever, combined womenswear, menswear, homeware and skincare under one range that included cotton robes, aromatic candles, printed performance crop tops and matching leggings, started at amazing price of £2. Primark Wellness was launched internationally

Primark has around 500 celebrities, fashion and beauty influencers as part of its local influencer strategy across all its markets.



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in February-end across 200+ stores including 43 stores displaying it on specially created Primark Wellness hubs made from Forest Stewardship Council-certified wooden fixtures, recyclable display panels and cardboard hangers.

### Banking on 'Influencers'

Primark has around 500 celebrities, fashion and beauty influencers as part of its local influencer strategy across all its markets. Their social media profiles have tens of thousands and even millions of followers. Each one is under the contract to post an agreed number of images and videos that complement Primark's marketing themes and product launches. Primark utilised these marketing assets wisely during the lockdown when it conducted a virtual pyjama party that went global in the month of May.

Millions of people, many sharing pictures of themselves in their favourite Primark nightwear, viewed the videos and images posted by 33 such participating influencers that included fitness guru Alice Living, beauty blogger Sophie Hannah Richardson, JLS singer Aston Merrygold and reality TV star Ashley James.

During varying stages of the pandemic across countries, Primark changed its influencers' focus from product lines to staying at home and keeping well and safe. When stores reopened in May, the influencers were asked to explore wellness themes relevant to each country. This aligned with the brand's intent of offering local empathy.

The calendar's last quarter coincides

with Primark's Q1, FY21 that ended with sale loss for both ABF and Primark. Assessing the quarter comprising 16 weeks, Primark reported a sales shortfall of 30 per cent over the last year at constant currency and 28 per cent at actual exchange rates. The period saw restrictions ranging from people's movement to restricted trading hours or complete closure of stores.

The company estimated a sale loss of £540 million during this period. Despite strong trading when the stores were open the LFL (like-for-like) sale loss was (-)14 per cent compared to the previous year. Sales were higher than last year at Primark stores in retail parks while those at shopping centres and regional high streets reported lower sales. Since stores at large destination city centres are heavily reliant on tourism and commuters, they experienced a significant decline in footfalls. The sales remained strong in stores that were open leading up to Christmas festivities. The markdown levels remained lower than the same period last year. Primark announced it would honour all orders placed with suppliers.

Despite flooded customer demand on social media and a foreseeable sale loss, Primark did not switch to selling clothes online. The company argued that switching costs would enforce the increase in product prices to maintain margins. This was very much against the founding principles of the Primark business model.

During Q1, the retail space increased by 0.2 million sq ft with addition of five new stores—two each in Spain and the

US, and one in Italy. As of January 14, 2021, 78 per cent of all stores occupying 76 per cent of total retail space remained closed.

The pandemic delayed some store openings containing 0.7 million sq ft of retail space which have now been scheduled to open during FY21. These include 15 stores—five in Spain, three in the US, two in Italy and one each in the UK, France, the Netherlands, Poland and Czechia as the 14th new market. Additionally, leases have been signed for new stores in the US, Italy, France, Poland and Czechia.

### Socially Responsible

Primark is committed to a better future for the people and the planet. This is why the fashion retailer has been working hard for many years to make sure that the products are made with care while ensuring respect for workers' rights and the environment. Supply chain standards are monitored by Primark's Ethical Trade and Environmental Sustainability team comprising over 120 specialists based in key sourcing countries. The team visits and reviews every Primark's supplier factory at least once a year to make sure that the standards in factories diligently follow retailer's Code of Conduct.

Primark has been making good progress in becoming a more sustainable company guided by its Sustainable Cotton Programme, constantly developing ranges from recycled materials and more recently, launching an in-store recycling scheme in the UK.**FF**