

# An argos strategic review marketing essay



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Argos is a retailer catalogue merchant, based in United Kingdom Republic of Ireland; who sells products using printed laminated catalogues in store, which customers can browse through and make purchases. Argos is owned by Home Retail Group and is one of the biggest household retailers in Britain. Typically in an Argos store products are not usually on display with the exception of jewellery, watches and some discounted toys/ sale items. Instead customers select their items from the catalogue, make a payment at the checkout till or automated kiosk located inside the store. After making the purchase, the goods are delivered at the collection point.

Argos also offers online shopping facility where customers have the option of reserve and collect (payment made in store) or home delivery where payment is made online. Compared to other retailers Argos has lesser overhead costs as they do not have large show rooms or shop floors. Argos has been struggling over the past few years due to high competition.

In April 2011 the then Managing Director of Argos, Sara Weller had to resign due to health conditions and Terry Duddy (CEO, Home Retail Group) stepped in to take over. The same year Home Retail Group faced about 50 percent fall in their market share. In February 2012 the board recruited John Walden who had previously worked with US Retail giants like Best Buy and Sears to run the Argos retail business. On 24th October 2012 Argos came up with their strategic or business review findings and announced that their aim is to reinvent Argos as a ' Digitally-led' business.

This report summarises Argos' new Strategic Review, its findings & implications and also surveys the various factors considered during the

review, the strategy they would adopt and also examines if this new step would be beneficial for the growth of Argos in the long term.

## **Summary**

According to John Walden [1], the following are a few range of areas considered.

Markets

Competition

Argos offer - customers and products

State of digital channels

Stores & Catalogues

Systems and key business processes

As per the recent strategic review, Argos aims to focus more on web and mobile mediums of business by transforming printed catalogues to its digital equivalent. They are also planning to launch more high end products aimed at the affluent customer base. Although the primary focus is on the digital medium, paper catalogues will not be fully withdrawn. Instead catalogue sizes will be reduced and redesigned into new formats. In-store Wi-Fi connectivity will also be rolled out to assist customers who wish to use their own devices and purchase products instantly. There was an 18% decline in catalogue use and 21% increase in online visits over the past two years.

To transform as a digital retailer Argos aims at providing high quality digital experience to their customers and developing digital catalogues for smart phones and tablet pc's. Having identified their customers spending habits, they have countered the decline in demand for electrical goods, furniture and video games by promoting products in the health & beauty and clothing categories. Argos is planning to increase a proportion of their overall sales by introducing more luxury branded products which would attract premium shoppers towards them.

The strategic plan also reveals their intentions to alter delivery options and provide their customers with more flexible choices such as click & collect, next day delivery and same day delivery services the latter two being already offered by their key competitor, Amazon (same day service recently introduced in United States and yet to be trialled in United Kingdom)

In addition to the above there are plans to shut about 75 stores across the UK. Hoping to transform the business around, they have earmarked £100m for each of the next three years focusing on building an efficient IT infrastructure and have budgeted an extra £50m to accommodate any unforeseen expenditure. Argos announced that 75 percent of its store estate will be on lease terms, about 5 or less by year 2018 which would give them more flexibility to respond to market changes.

As Nick Bubb [2], the analyst says Argos was a strong retailer and it is huge at present too, as it plays an important role in general merchandise retailing. He points out about the growth of Amazon which made catalogue businesses vanish in many countries all around the world. Nick Bubb also says that with

regard to the profitability of Argos the plan is ambitious, and questions whether the plan is achievable. He concludes that even though Argos Strategic Plan is advantageous with respect to multichannel approach and development of efficient delivery networks, it faces an uphill task to be at the same level as other retailing giants.

The reactions of different analysts on Argos' Strategic Review [3] are as follows:

“ There is little in the current strategy that, in our view, will arrest the current decline in Argos' profits. We still believe Argos will be forced into a restructuring programme reducing the number of stores, which could impact the company's currently strong balance sheet and support provided by its sum of the parts valuations.” – says Seymour Pierce analyst Freddie George.

“ We would have liked to see a more radical change in Argos' strategy that leveraged its distribution network, perhaps for more third parties. Though we do note there seems to be an increased focus on collecting data from 12m customers, which will help Argos introduce personalised offers but presumably also has a marketable value in its own right. Overall though we are not yet convinced this solves the structural and competitive threats Argos faces.”- says Caroline Gulliver, Esperito Santo analyst.

## **Conclusion**

Argos' Strategic Review reveals that they are following an intended Strategy, which is spread over a 5 year period focusing on impending changes to be made in line with digital trends. Argos is also adopting a strategic option; by retrenchment they would be closing some of their stores in the next few

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years and also curtail catalogue sizes and conversion to digital equivalents. In doing so and increasing investment/develop new products a clear path is being laid towards growth of the business.

They have identified their competitors, developed a plan (which they claim indicates the steps involved in the process) and plotted their direction. The main way forward seems to be to use the web/mobile platforms to transform into a digitally-led company with plans like digitising catalogues, introduction of luxury brands to attract wealthy customers, develop customer offer with universal appeal and to close few of their stores with a low customer count. They are also having a clear direction to achieve all these by 2018 with a plan of investing £100 million each year for consecutive 3 years from 2013.

Since the advent of economic crisis profit margins have shrunk and customer spending power has reduced. This coupled with intensive competition from other retailers have forced Argos to revise their current strategy to that of retrenchment and growth.

To begin with their existing strategy had flaws in the way they did business. A customer walking into Argos spends a lot of time in three different locations (looking up item, paying for the item, collecting the item) within the store before getting their purchased product. This particular lay out was a significant disadvantage to potential customers. This is because, as products are not on display (with the exception of jewellery and watches), most people shopping at Argos would know what they want to buy. Therefore they would much rather prefer to spend as little time as possible in the store and not want to go through the three steps currently necessary to buy an item.

Argos' strategy looks really promising (and also would be advantageous for them compared to their current strategy) for the fact that this transformation would help them build a database (collection of customer's personal information) which they could possibly use to market and promote products based on individual purchase histories.

To sustain and compete with fast growing technology changes Argos must act fast (rolling out its strategy over a period of 5 years seems a slow response to the current market environment). With ecommerce predicted to grow exponentially over the next few years Argos is reducing its chances of tapping into this fast growing market by making these changes over a longer period. In order to be successful they need to be extremely competitive on price. It is to be noted that Argos' strategy would not be an immediate threat to any of its competitors since majority of them already have a very strong online presence and are online only retailers. Example – Amazon

The real threats that Argos faces are structural and competitive. The plan to transform itself as a digital retailer alone would not help, as the strategy does not pay attention to how the current decline in sales can be tackled. Achieving its goals by 2018 seems unrealistic since the competition is only getting tougher and unless they are aggressively competitive on price they may not be able to attract new customers.

In addition some of the supermarket groups have already established an online platform which stocks household retail product lines similar to that of Argos with rewarding loyalty programmes. Example – Tesco Club card.

To summarise the Argos Strategic Plan although beneficial in comparison to its current strategy, cannot be sustained in the long run as the changes have been planned to be phased in over a 5 year period which is too long and unless pricing strategies are not carefully planned Argos may end up with a continued decline in sales.