

# Indepth analysis of debenhams public marketing essay



**ASSIGN  
BUSTER**

This report is an indepth analysis of Debenhams Public Limited Company. It analyzes the review of the company, history, subsidiaries, brand, products and merger.

It also looks into the Swot Analysis of the company detailing its external and internal factors. Also, detailes of the five year performance and two years ratio analysis has been taken into account.

To: Chief Executive

From: Omoh Agbi

Date: 9th December 2010

## **Terms of Reference**

The first part of this report analyzes what the company deals in, history, subsidiaries

## **Overview of Debenhams Plc**

Debenhams is one of the biggest department store group owning about 167 stores in the United Kingdom as well as Denmark and Republic of Ireland, with its head office on 1, Welbeck Street. London. Debenhams operates in three different divisions, which are Department stores dealing with all products and brands. Desire stores which are smaller stores dealing in accessories, childrenswear, health and beauty. The third is Franchise stores which only operates internationally. Their main objective is to satisfy customers by providing range of differentiated products and services.

## **History**

Debenhams was formerly a Drapers store founded by William Clark at 44 Wigmore Street in West End, London in the year 1778. Then, costly fabrics, gloves, bonnets and parasols were sold. Earlier on, in 1813, the store then became Clark and Debenham after William Debenham invested in the firm. In 1818 the first store was opened outside London in Cheltenham. In 1851, Clark and Debenhams was renamed Debenham and Freebody when Clement Freebody invested in the firm. Apart from the retail stores, wholesale business was also founded where selling of other items and cloth to not only dressmakers but also to large retailers was introduced. Debenhams was formerly known as Debenhams retail holdings Limited, but now re-registered as Debenhams Plc in April 2006. In 1905, Debenhams Ltd was incorporated and in 1928, it became a Public Company.

## **Acquisition/Merger and Takeover**

Debenhams merged with Marshall and Snellgrove in 1919, and in 1920 it acquired Knightsbridge retailer Harvey Nichols. Debenhams merged with Burton Group between 1985- 1998 and then introduced exclusive merchandise.

In the nineteenth and next century, several retail businesses were acquired with the opening of office in countries such as South Africa. By the year 1950, Debenhams owned 84 companies and 110 stores and in 1976, the company acquired Brown's of Chester.

After the demerger of Debenhams from the Burton Group in 1998, it shares was listed on the London Stock Exchange as a Public Limited Company after

<https://assignbuster.com/indepth-analysis-of-debenhams-public-marketing-essay/>

which it was acquired by Baroness Retail Ltd and delisted from the London Stock Exchange in 2003. Debenhams has expanded geographically through the years, opening its first international store in Bahrain. In 2007 it acquired 9 leasehold stores in the Republic of Ireland.

At present It has a total of 60 international franchise stores in 23 countries, 167 department stores in United Kingdom including Republic of Ireland and Denmark.(PR- USA. NET ) In 2009 the company signed an agreement with A/S Th. Wessel&Vett Magasin Du Nord consisting of 6 department stores, from MagillumA/S owning 100% of its share. Acquisition of this store has been completed, creating job opportunities through its expansion.

## **Subsidiaries**

Debenhams is a Public parent company, comprising of one public parent and 49 subsidiaries, two of which are in Denmark, one in Ireland and the rest of which are in the United Kingdom.

## **Aims and objectives**

Its main target is women aged between 25 – 55. It believes women loves to look good and trendy and aim to satisfy their wants through their differentiated product. Debenhams aims to gain market share by focusing on its products, space, balance sheet and multichannel through franchise partner. (investegate website 2010). Its 4 four main objectives are analysed below:

## **Product**

As stated above, only costly fabrics, bonnet, gloves were sold then, by William Clark in the 17th century. The company's first store was opened in Cheltenham in 1818 after it became Clark and Debenham. Presently, it offers a range of differentiated product comprising womenswear , lingerie, homeware, health and beauty etc. Its brand portfolio includes company owned brand such as Mantaray and Bluezoo, 25 of these are Debenhams designer brand. It also operates through online shopping for convenience. (Debenhams website).

Its aim to develop its own bought product was achieved, this year with an increase in sales by 7. 7% compared to other designers which declined by 16. 2%. Presently, it launched a new product which includes Principles, by Ben de Lisi, for women, new label brand for men named fit for purpose in July.

## **Space**

It has increased in space through opening of 6 new stores which includes 3 department stores and 3 desire stores in year 2009 and 2010 respectively. It has increased its sales and margin through store refits, with 5 more refits to be done. (Investigate website 2010)

## **Balance sheet**

Debenhams has been able to reduce its debt through its refinancing programme, reduction of £175. 0 million through repayment and buying back £30 million of its debt. (investigate website 2010) The company has been able to repay the nominal value of their loan before the stated period.

<https://assignbuster.com/indepth-analysis-of-debenhams-public-marketing-essay/>

The decrease in its net debt amounts to £590.30 million in year 2009 a decrease of £73.5m in 2010. (Debenhams annual report 2010). Their ability to reduce its debt is a centre of attraction to users of accounts like bank and creditors, trusting them enough to be able lend them money or give goods on credit.

## **Multi- channel**

This is basically, looking for ways to improve customer options through the internet, social network, international delivery etc for shopping convenience. So far there has been an increase of 88.4% in the year.

## **Debenhams and its environment**

A business should be able to make a positive impact on its environment, Debenhams have been able to demonstrate this by supporting charities like breast cancer campaign, children's hospice association and so on.

## **Analysis of competitors**

Debenhams is ranked the second largest department store group in Britain, among others such as Next Group Plc, House of Fraser Stores Ltd e. t. c (Reuters website) and also gaining a major part of the market since 2007.

[http://globalbb.onesource.com/ProductData/GBB/ChartImages/Chart\\_98.jpg?KxRx=0x09906](http://globalbb.onesource.com/ProductData/GBB/ChartImages/Chart_98.jpg?KxRx=0x09906)

Total Assets: 669,400.0

## **FYE**

### **Turnover**

#### **Assets**

01/28/2006

640, 100. 0

669, 400. 0

01/27/2007

663, 200. 0

463, 500. 0

01/26/2008

596, 000. 0

567, 400. 0

01/24/2009

578, 200. 0

616, 100. 0

01/30/2010

581, 400. 0

562, 200. 0

GBP (000)

[http://globalbb.onesource.com/web/images/webtab/Btn\\_on\\_cht.gif](http://globalbb.onesource.com/web/images/webtab/Btn_on_cht.gif)

[http://globalbb.onesource.com/web/images/webtab/Btn\\_off\\_data.gif](http://globalbb.onesource.com/web/images/webtab/Btn_off_data.gif)

<http://globalbb.onesource.com/web/images/webtab/Seperator.gif>

<http://globalbb.onesource.com/web/images/webtab/rightSep.gif>

<http://globalbb.onesource.com/web/images/webtab/endTab.gif>

Source: <http://globalbb.onesource.com>

## **Chart showing House of Fraser stores Ltd's Total sales revenue and Asset**

[http://globalbb.onesource.com/ProductData/GBB/ChartImages/Chart\\_2583.jpg? KxRx= 0x02923](http://globalbb.onesource.com/ProductData/GBB/ChartImages/Chart_2583.jpg? KxRx= 0x02923)

Total Assets: 2, 087, 300. 0

### **FYE**

#### **Sales**

#### **Assets**

09/02/2006

1, 707, 700. 0

1, 862, 200. 0

09/01/2007



1, 774, 400. 0

2, 083, 800. 0

08/30/2008

1, 839, 200. 0

1, 984, 300. 0

08/29/2009

1, 915, 600. 0

2, 135, 800. 0

08/28/2010

2, 119, 900. 0

2, 087, 300. 0

GBP (000)

[http://globalbb.onesource.com/web/images/webtab/Btn\\_on\\_cht.gif](http://globalbb.onesource.com/web/images/webtab/Btn_on_cht.gif)

[http://globalbb.onesource.com/web/images/webtab/Btn\\_off\\_data.gif](http://globalbb.onesource.com/web/images/webtab/Btn_off_data.gif)

<http://globalbb.onesource.com/web/images/webtab/Seperator.gif>

<http://globalbb.onesource.com/web/images/webtab/rightSep.gif>

<http://globalbb.onesource.com/web/images/webtab/endTab.gif>

Source : <http://globalbb.onesource.com>

## **Chart showing Debenhams Plc's Total assets and Sales.**

The charts above shows, the total sales and assets owned by both Debenhams and House of Fraser for 5 years. It shows that Debenhams is performing better, its sales are in millions as well as its assets, compared to House of Fraser. This increase could be as a result of its expansion and store opening except for year 2008, which could be as a result of the economy downturn. Although, store expansion could lead to reduction in cash flow, if the assets are sold, proceeds could be used to re invest into the business, which is a good way of raising finance.

## **Financial Data**

Over the years there has been significant increase in turnover over the years, 2009 and 2010. Despite the economy down turn, Debenhams have been able to achieve some of its aims if not all. In 2009 sales were £1915.60m and £2119.90m 2010. This could be traced to their differentiated service, opening of stores globally and launching of new products. Profit before tax shows an increase from £120.80m and £139.90m. The company's cash inflow shows it has been cash productive, so far, looking at the cash inflow from operating activities, In 2009, it was £241.0m and 2010 £299.2m.

## **Directors and Shareholders**

Debenhams Plc have 3 executive directors and 5 non executive directors, and a chairman Nigel Northridge who was appointed on 1st of April.

(Debenhams annual report 2010). Executive directors normally aids the

overseeing of the company's activities in order to achieve its set objective, while non executive directors are normally employed part time , and help to make decision on how much should be paid to the executive directors.

Debenhams Plc has about 83 Shareholders including its chief executive, Rob Templeman owning 100, 000 shares, holding of 0. 008% including top banks such as HSBC and Barclays. (Worksmart website) (morning star website)

## **SWOT ANALYSIS**

This stands for Strength, Weakness, Opportunity and Threats of the company. The strength and Weakness of a company is based on the internal appraisal of the company, normally factors that can be controlled by the company. The aim of this analysis is to discover where there can be developments, to know how to measure up to their competitors and to increase its profit margin. (Kaplan Publishing UK, 2008).

### **Strengths**

Differentiated service offering

Strong portfolio and brand portfolio

Growth in revenue

Strong heritage and brand equity

### **Weaknesses**

Declining operating margin

Declining like for like store sales

## **Opportunities**

Expansion through acquisition

Organic growth through store opening.

## **Threats**

Continuous increase in wages

Competition from several retail formats

Drop in living standard

Source: <http://globalbb.onesource.com>

The table above shows the SWOT and PEST analysis of Debenhams

## **Strengths**

Debenhams's differentiated product has helped it to increase sales revenue by 10.66%, which could be as a result of launching new products and increase customer satisfaction, thereby giving it an edge over its competitors. This is a very good indicator because customers prefer to be fully satisfied with whatever services they are paying for. It recognises customers needs at a given time through offering varied products it recently reported increase in sales by 65% by selling long sleeve shirt for winter. (PR-USA. NET)

Its strong heritage and brand equity has not only helped to increase revenue, but to have an edge over competitors and increasing customer base that is, the more sales the higher revenue. its widely spread made

<https://assignbuster.com/indepth-analysis-of-debenhams-public-marketing-essay/>

could have a positive impact in terms of its goodwill and encourage investors from other countries as well as top manufacturers, distributors, marketers and so on. Their net debt has also reduced this year, which could be seen as strength to users of accounts.

## **Weaknesses**

In year 2009, Debenhams had low operating profit, which could be seen as a weakness. The declining operating profit could be as a result of poor cost control of pricing policy undertaken by the company. This year it has increased its operating profit which is a good indicator for investor to buy shares in the company. Like for like sales fell by 1.5% this year due to store moving to increase their own products

Opportunities and Threats is based on external appraisal of the company “ it is often referred to as PEST analysis as it focuses on politics (government), economics, social policy and technology.” (Kaplan Publishing UK, 2008, pg 11) which is normally beyond the control of an organisation.

Debenhams has the opportunity of expanding globally through the acquisition of Magasin Du Nord, the largest leading market in Denmark. By doing this it has been able to create awareness to other part of the world, gain market share and faster growth.

Its aim is to provide excellent customer service, increase customer base and market multichannel offer to places like Sweden. It has experienced growth in e-retailing through on line shopping, with an increase in sales by £10 million. This serves as an advantage to the company leading to the reduction of operating costs such as advertising, social networking and promotions.  
<https://assignbuster.com/indepth-analysis-of-debenhams-public-marketing-essay/>

The company's aim is to achieve higher sales and operating efficiency through opening new stores. This could be a threat as well in terms of their cash flow when the need for immediate cash arises. They will not be able to meet any unexpected situation. The company is able to reduce production costs by buying materials at a discounted rate from countries like Asia, leading to increase in margin and reduction in selling price.

## **Threats**

Debenhams is faced with competition from other retailers, as competition is very high due to recession, its fear is that customers might switch to other retailers, thereby placing pressure on their profitability and pricing strategy. To stay competitive, product differentiation should not only be considered but also pricing, for profitability purpose. According to the law of demand, increase in price will lead to corresponding decrease in goods demanded and vice versa. If the company is to increase its price, it will be prepared to lose its demand, and at the same time revenue. Pricing should be looked at with caution, so they can still have healthy competition and high margin.

## **SHARE PERFORMANCE AND ANALYSIS**

Debenhams shares is listed on the London Stock Exchange, its symbol is shown as DEB. Its market value at presently is £916. 8.

### **Share Price Chart**

18-Feb-2010 : 66. 85

Share Price Graph

Source: <http://www.hemscott.com>

<https://assignbuster.com/indepth-analysis-of-debenhams-public-marketing-essay/>

The above chart shows 5 years share performance of the company. Share prices could be affected by a company's performance and the current state of the economy. In the year 2006 their share price was very high, this may be because Debenhams was off the London stock exchange market before, then came back in 2006, causing an attraction to investors. Although their operating profit was quite low this could be hindering the share performance. Midway, between 2006- 2007, their share price dropped slightly, might be due to decrease in like for like sales. Moreover there is increase in January 2007, increase of 5. 0% in like for like sales could be as a result of Christmas sales then.

Midway between 2007 and 2008 share price started to fall could be as a result of low sales reported or dividend paid.

In 2008, there is a sharp fall, between January 2008 – January 2009, their share price was at its lowest price. As a result of the economy downturn, most retail sector did really badly, like for like sales fell by 0. 9%. also their operating profit fell compared to 2008. At that time the effect was not only predominant in the share market, but also on individual consumer leading to a decrease in demand of goods.

In the first quarter of 2009, share price begins to pick up at 50%, this could be as a result of their increase in operating profit of £182. 2m compared to £176. 1m in 2008 arising from strong third quarter performance. It might also be that dividend there was an increase in dividend paid. In 2010 the increase continues and quite volatile, this could be as a result of an insignificant increase in operating profit

## Share Price Chart

29-Dec-2009 : 77. 4

Share Price Graph

### Source: **hemscott. com**

This chart shows the share analysis of both Debenhams and FTSE 250. It indicates that Debenhams and FTSE 250 have a different trend in share price with Debenhams not performing up to the FTSE standards, could be as a result of their low operating profit highlighted as their weakness. In the fourth quarter of 2008, both FTSE 250 and Debenhams share price dropped due to the recession. In 2009 it started picking up as well as FTSE 250.

## Ratio analysis

### Profitability Ratio

Profitability ratio is used to ascertain how profitable a business is for investment purpose, also to compare its performance with that of its competitors. The company's gross profit margin indicates a reduction, in 2009 13. 83% and 2010 13. 26% to this year. This may be as a result of the exceptional cost of sales which includes restructuring expenses incurred for redundancy within the Republic of Ireland. Net profit margin increased from 6. 31% in 2009 to 6. 60% in 2010 despite, its higher expenses this year. The increase could be as result of £6. 8million, income from the excess of the amount paid for acquisition of Magasin over its fair value.



## **Liquidity Ratios**

Liquidity ratio of the company is based on the current ratio and the acid test ratio. The 2010 current ratio is 0.48: 1 compared to 2009 which is 0.88: 1 shows there have not been much progress. The company's has more liabilities this year compared to last year. Debenhams is at high risk because it may not be able to pay off its liability when due. Acid test ratio denotes the ability of the business to pay its current liabilities. It is showing a decrease of 0.44 and 0.14 in year 2010. This means that Debenhams might not be able to pay its short term liability.

## **Capital structure**

### **Debt Ratio**

This is a measure of a company's total debt in comparison to total assets. In this case Debenhams will not be able to meet its liabilities when they fall due. Looking at the ratios, the company is highly risky despite its reduction by 4% (2010: 76%, 2009: 80%) the company is highly risky but conclusions cannot be made because the norms of the company should be looked into. Nevertheless, the point is that this ratio does not really give the true financial state of a company, as its total liabilities include provision for liabilities which is just an estimate. In the 2010 report, there is a significant increase in bank overdraft/borrowing of £545.7million in 2010 and £92.6million in 2009. This increase might be due to opening of new stores during the year financed by short term loan. This is quite good because it means that the company is avoiding long term liability over the years to avoid extra interest charges.

## **Interest coverage ratio**

This ratio indicates if a company has made enough profit to meet the payment of interest when they are due. In 2009, ratio is 1.93: 1, while in 2010, ratio is 2.48 : 1, indicating an increase compared to last year. Rule of thumb is 1.25: 1, the higher the ratio the more likely they are able to meet their interest obligation. However, the fact the company has a high interest cover, doesn't necessarily mean it can meet its interest charges obligation at any time.