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U.K. Teen Hit Primark Stays Tweet-Free Undercutting Foes: Retail
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By Sarah Shannon

Feb. 26 (Bloomberg) -- You can't see them on Instagram, hear their tweets on Twitter, or pin them on Pinterest. We're not talking about your grandparents, but about Primark, Britain's fastest-growing fashion chain.

Bigger rivals like Inditex SA, Hennes & Mauritz AB and Gap Inc. lure shoppers via Facebook Inc., YouTube, and bulletin board Pinterest and add country-specific websites to target new markets. Primark, by contrast, has ruled out selling its budget clothing online, saying stores offer so much growth it doesn't need the Web. Even social media barely plays a role.

Primark, founded in Dublin in 1969, has prospered by selling some of the cheapest clothes around thanks to a tight rein on costs, evident in its small staff numbers, stores crammed with merchandise, and general avoidance of advertising.

The 257-store chain saw its sales jump 15 percent to 3.5 billion pounds (\$5.3 billion) last year. On Feb. 25, Primark said it expects revenue for the six months ending Mar. 2 to grow 23 percent.

By keeping overhead low, Primark can offer colored denim jeans for seven pounds, half the price of a similar pair at H&M and less than a fifth what they might cost at Inditex's Zara. It also keeps margins thin: Primark's operating profit is 10.2 percent of sales, less than at Inditex and H&M, according to data compiled by Bloomberg.

Setting up a separate Web store would be expensive and fulfilling orders for low-value items wouldn't be profitable, according to Matt Piner of market researcher Conlumino. So not going online "completely makes sense because the cost would destroy their margin," Piner said.

Brand Buzz

"The challenge for them is to keep the buzz around the brand, and keep that appeal for younger shoppers," Piner said.

"If they can keep doing that, not being online won't be an issue."

Primark's Web weakness isn't hurting profit, which Societe Generale estimates will increase 35 percent to 480 million pounds this year. That compares to 26 percent growth for Inditex, the owner of the Zara brand, and a 9.5 percent lift for H&M, according to data compiled by Bloomberg.

"It's the design and the price I like," said Rie Smielt, a 20-year-old Danish student, clasping a Primark shopping bag laden with 50 pounds worth of clothing, including jeans, two blazers, and a beach dress. "You need to come to the store to see if it fits and see the quality. I don't think I would shop online."

Shares of Associated British Foods Plc, Primark's owner, have surged 16 percent this year, besting H&M's 4.3 percent gain and a decline of 1.7 percent at Inditex. A standalone Primark would have an even higher valuation, Investec analyst Martin Deboo said, since AB Foods is weighed down by less profitable businesses such as Australian meat and bread in the U.K.

Models Backstage

While billionaire Philip Green's Topshop and H&M court young shoppers with Instagram photos of models backstage at London Fashion Week and tweets about celebrities wearing their clothes, Primark is silent. It has a fan page on Twitter, but not its own, and more than 460,000 'likes' on a

Facebook page the company introduced last year. That might seem OK until you consider that Zara's Facebook page has some 16 million fans.

Primark's website, meanwhile, has more details about what it calls its ethical trading standards than its fashions. A "product" page features thumbnail-sized pictures of about 30 outfits -- with no prices. Images for childrens' clothes are "coming soon," the page promises.

'Quite Primitive'

"Their website seems quite primitive," said Ashma Kunde, global apparel analyst at market researcher Euromonitor in London.

Primark would be wise to better engage shoppers via social media, said Kate Ormrod, an analyst at Verdict Research in London. Ormrod suggests that at a minimum the company should offer styling tips or hints on how shoppers can dress more like their favorite celebrities.

"It would get people wanting to go to the stores," Ormrod said. "Primark is way behind the likes of Topshop. They've hardly investigated online, which is quite disappointing."

Primark makes no apologies about its Web strategy and has no plans to add online sales, said Finance Director John Bason.

"The growth we're getting in topline and profit in Primark, without a transactional website, really speak for themselves," he said.

Bason does acknowledge that Primark could improve the site as a place where shoppers can better peruse its offerings.

"They're working on it," he said, without giving a timetable.

Russian Deliveries

Primark opened 19 stores last year as well as a 425,000 square-foot warehouse in Germany to service its growing northern European operation. Rivals like Topshop and Next Plc, Britain's second-largest clothing chain, have lately relied more on the lower-cost route of using the Web to enter new markets.

Arcadia Group Ltd., the owner of Topshop, said e-commerce sales climbed 22 percent last year as it expanded the business to 112 countries. Next says revenue for its online and catalog business increased 16 percent as it extended delivery to Russia and Latin America. At Asos Plc, an online-only U.K. fashion chain that adds 1,500 new items every week, sales rose 32 percent last year, driven by revenue from the U.S., where it increased digital marketing to attract younger shoppers.

Developing an online business isn't easy or cheap, according to Mark Hudson, a partner in the retail practice at consultants PricewaterhouseCoopers. It requires a supply chain flexible enough to handle the demands of large flagship stores alongside small online orders, and smart enough to give timely, accurate information about whether an item is in stock or not.

Ray-Bans

Processing an online order for clothing typically costs retailers between 5 pounds and 10 pounds, Hudson said. Customers need to buy enough to offset that.

While Inditex is "extremely profitable online," stores where customers don't spend as much per visit, such as H&M, are less so, according to Credit Suisse retail analyst Simon Irwin. The average spent at Primark, home of one-pound imitation Ray-Ban sunglasses, is even lower than that at H&M.

Product returns are also a bigger concern on the Web. Shoppers typically send back about 30 percent of clothing bought online, as they buy several sizes and colors to try on, versus about 10 percent for brick-and-mortar stores. A surge in online returns

could clog Primark's supply chain, according to Darren Shirley, an analyst at Shore Capital in Liverpool, who has a hold rating on the stock.

Even without a Web presence, "I can see this business doubling over the next five years in terms of sales and profits," Shirley said. "There's more than enough growth to go for in Europe."

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