The rise and fall of Philip Green's Arcadia Group

By Nelson Blackley

28 Jun 2019

Philip Green's Arcadia retail empire lives to sell another day. After a week's delay and five hours of discussions, Arcadia's creditors agreed to a Company Voluntary Agreement (CVA) that involves rent cuts, 23 store closures and 520 job losses, but ensures the retail group's survival for the time being after months of uncertainty over its future.

Eastgate Basildon via Wikimedia

Arcadia includes household high street fashion names Topshop, Topman, Burton, Dorothy Perkins, Evans, Miss Selfridge, Outfit and Wallis. It has a turnover of £1.8 billion and employs 19,000 people across the world.

But these stores have struggled to survive the headwinds that have hit UK high streets. Some have survived a century of fashion trends, but they have not managed to keep step with the rise of online retail and fast-changing consumer expectations.

The Arcadia Group’s history began in the early 1900s, when a Lithuanian émigré, Montague Burton, arrived in Britain and set up his eponymous menswear business in Chesterfield, England. The move to womenswear came in 1946, with the acquisition of the Peter Robinson chain. Topshop was launched as a “young fashion department” in the mid-60s. Topman launched in 1970 and names like Evans and Dorothy Perkins were acquired. The Burton Group then demerged in 1997, giving rise to Arcadia, which acquired Wallis, Miss Selfridge and Outfit.

This growth matched rises in disposable incomes, with more and more being spent on fast fashion. At the same time, the outsourcing of manufacturing to countries with cheaper labour such as China, Bangladesh and Turkey, meant bigger profits for retailers.

When Philip Green bought Arcadia in 2002, he expanded the group even further. Huge international growth followed, bringing Topshop into the US, China and a large number of franchises around the world. The group was doing so well that in 2005, Green’s wife Tina was paid £1.2 billion in dividends from the company.

Edcon secures R2.7bn lifeline for restructuring plan
4 Mar 2019

Tired mid-market fashion

But Arcadia has gone the way of a number of high street operations in the last decade. The most recent accounts for Taveta Investments, Arcadia’s holding company, revealed operating profit down from £215.2m in 2016 to £124.1m in 2017, on total sales that dropped 5.6% to just over £1.9 billion.

Shoppers are deserting the group’s tired mid-market fashion stores in favour of online fast fashion rivals. Topshop was once the flagship fashion brand for millennials, but like-for-like sales are now falling about 20% a year as customers look to online players such as Boohoo.com, Asos and Missguided. The other Arcadia brands, Miss Selfridge, Dorothy Perkins, Wallis, Evans and Burton all peaked years ago.

Arcadia has blamed its decline on this “increasing switch from in-store to online shopping”, as well as aggressive discounting by competitors, rising business rates, and the new living wage. And like many other legacy retailers with sprawling, under-productive stores that appear no longer fit for purpose in the 21st century, Arcadia has said its shops were paying about 25% too much in rent. The new negotiated CVA deal with creditors will see some of these rents now cut.

Jeans maker Diesel files for bankruptcy in the U.S
7 Mar 2019

Digital trends

While Topshop was one of the first retailers to launch an app, it didn’t have a cohesive marketing approach or digital strategy. And, unlike many of its fashion competitors, didn’t collaborate enough with social media influencers on collections, despite some successful tie-ins with designers such as Christopher Kane and celebrities such as supermodel Kate Moss.

Online brands Boohoo and Asos, as well as high street retailer New Look, began using digital marketing features like catwalk videos and inspirational photo collections featuring outfit ideas in 2011 and 2012 to promote products. In comparison, Topshop’s website still doesn’t have catwalk videos, and its photo collection section – showing models in various outfits – is less sophisticated than other websites.

Other retailers with physical stores such as Zara, Primark and H&M have been much more responsive to the needs and expectations of younger fashion consumers, who would have once been loyal Topshop shoppers.

H&M’s UK store estate doubled between 2005 and 2012. Primark’s sales almost quadrupled in that period, to more than £3 billion. So the competition in the UK fashion sector is fierce.

But, what investment there was at Arcadia went into overseas expansion – notably in China and the US. Customers queued around the block for the store’s 2009 opening in New York when Moss joined Green for a star-studded event.

But the fashion world has moved on and under the proposed CVA plan, New York’s Fifth Avenue Topshop flagship, will close along with ten other US outlets. Recent months have seen a cascade of announcements of stores closing. In late March, 67 sites in the UK and Ireland were earmarked for shutting.

Brick-bait: 3 tricks up retailers' sleeves to lure you back to physical shops
Eloise Zoppos 28 Jan 2019

The recent CVA began after Arcadia pressed the button a radical restructuring plan in May. Many high streets will soon look very different, as a result. For 194 of the surviving Arcadia stores, the rents will be reduced.

The challenge now for Arcadia is huge, given its performance over the last ten years. Competitors will continue to disrupt and innovate and so if Green has any ambitions for the long-term survival of his stores, he’ll need to make significant investment in the business. He will also, almost certainly, have to make further reductions in the group’s total number of UK stores.

Finally, as he will be aware, a CVA is certainly not a guarantee of retail survival. British Home Stores, Austin Reed and Toys R Us, among others, all went down the CVA route – but eventually failed.

ABOUT THE AUTHOR

Nelson Blackley, Senior Research Associate, Nottingham Business School, *Nottingham Trent University*