



Schuh's flagship store on Oxford Street, London, opened in 2004.

CREDIT: SCHUH

US retailer Genesco recently bought UK-based footwear retailer Schuh, in a £125 million deal. International expansion is a bonus for both companies, as business practices and trends predicting are shared across the Atlantic.

Going global

The quest for a place in the international marketplace is one that many large companies will be familiar with; global expansion is becoming ever more prevalent and fashion trends are converging more and more. It comes as no surprise, then, that US-based retailer Genesco has decided to venture outside of the United States and expand its brand portfolio in Europe. Genesco, which specialises in footwear, headgear, sports apparel and accessories, also owns US-based footwear brand Journeys. The firm recently tested the water outside of the US by opening three Journeys stores in Canada. Now, in what appears to be a mutually beneficial agreement, the retailer has acquired independent UK footwear retailer Schuh for £100 million, with deferred payments of £25 million, subject to Colin Temple, managing director of Schuh, and Mark Crutchely, its finance director, staying with the company. There will also be an earnings-related bonus of up to £25 million in 2015.

Robert J. Dennis, chairman, president and CEO of Genesco, spoke at a conference call in late June, saying the

acquisition represents the next step in the firm's international expansion. "We have had an ambition to do something more international and Canada gave us some confidence that these trends existed," he said. "We spent some time talking to vendors, asking where they thought Journeys would have the best fit." Believing they would find their opportunity within the UK, Genesco searched within the country's footwear retail market. "We looked at a lot of opportunities but it was clear to us that Schuh represented the best fit with what we do," said Mr Dennis. "Schuh provides us with an immediate and established retail presence in the United Kingdom, a highly experienced international management team, and improved insight into global fashion trends. The concept is similar to Journeys in customer demographics, product offering and operating philosophy, so it is a business we know and understand. At the same time, we believe that the combined businesses will benefit from significant merchandising synergies and from many opportunities to share best practices to our mutual benefit. Financially, the Schuh business is

compelling, with attractive store economics and solid growth prospects."

Schuh was founded in Edinburgh, Scotland, 30 years ago and has 59 stores in the UK and Republic of Ireland, 16 concessions in Republic apparel stores and an online shoe website. In light of the sale of the company, Schuh's 2,827 staff will share a pay-out of £37.3 million. Those with more than three months of service will receive 10% of their annual salary, while those with more than 20 years could receive up to six times their salary. "The size of the offer for the business was such that the very least we could do was let that cascade down," said Mr Temple.

Picking up the pace

Genesco has more than 2,285 stores in the US and Canada. Mr Temple believes the Genesco deal marks a significant step change for Schuh as it accelerates growth plans and expands its UK network, after gaining significant market share in recent years.

"Like Journeys, we specialise in providing our customers with branded casual and athletic footwear styles that are in line with current fashion trends and with a breadth and depth of assortment that is difficult to find elsewhere," he says. "We believe joining forces with Genesco will help to further distinguish our concepts from the competition and deliver substantial strategic synergies."

Genesco does not plan to rebrand Schuh, but expects to bring Schuh's private label brands to the US and to leverage their expertise to develop new brands for its Journeys retail stores. "Private label hasn't been a big focus for Journeys historically, but given Schuh's success and the combined volume of the two businesses, we see it as a growth opportunity going forward," Mr Dennis says.

While 85% of Schuh's product mix is branded, private brands constitute the rest. Schuh generated sales of about £164 million for its fiscal year ended March 27.

Strategy planning

Genesco has laid out four key points of its acquisition of Schuh. Its plans include doubling UK stores to between 100 and 120 in the next four to four-and-a-half years, sharing best practice ideas between Journeys and Schuh and increasing the number of exclusive offers in stores. "First [of the key points] is that Schuh will have access to Genesco capital," a statement from Genesco says. "Second, is the ability to share trend information going east and west. Third, the total buying volume of two operations will make us even more important to vendors, bringing benefits like better access to exclusive products. Journeys do many more special exclusives with key vendors than Schuh and we expect to be able to take these points of difference to our new partner.

"Then there is the opportunity to bring Schuh's private label brands to the US, as well as to develop their expertise to develop new brands for Journeys. There is a clear opportunity to share best practice.

"We are optimistic that our combined resources will allow



us to strengthen Journeys' leadership position in North America, accelerate Schuh's market share gains in the UK and the Republic of Ireland, and create a platform to possibly support future expansion in continental Europe. Finally, we suspect that somewhere down the road, Schuh can be the base from which we establish a presence on the continent. However that is not in our immediate plans given the growth opportunity in the UK."

From Schuh's point of view, the transaction is not only financially appealing but also a way to gain insight into the success of Journeys and other large US retailers owned by Genesco. "As a footwear retailer we were aware of Journeys and perhaps a little bit flattered when we came on their radar," says Mr Temple. "For us, Journeys is perhaps the closest thing that was like Schuh over in the States." As the companies communicated in the days leading up to the sale, they found similarities in the way their businesses were run, but also differences. "We immediately started to learn things; we sell shoes in very different ways, for very different reasons," says Mr Temple. Schuh turns its inventory four times a year, and according to Mr Temple, this is to do with the relatively small size of the UK. "We can get deliveries to any of our stores next day, and that means we can work our stock that little bit harder." Schuh's philosophy is to "buy little and often," says Mr Temple, "and if the buy goes wrong, it's just about getting rid of it as quickly as we can. And the quicker you get rid of something, the higher the turnover price can be."

One thing that Schuh and Journeys definitely have in common is target audience; the core customer for both stores is aged between 15 and 24. "A lot of the brands are very common, and a lot of the trends; the world's a small place," says Mr Temple. "The kids are looking at the same things."

Looking to the future, Schuh intends to make more use of burgeoning ecommerce opportunities. "We invest heavily in our resources, we're a little bit paranoid and we love to do everything for ourselves because we like control," says Mr Temple. "So rather than pay big licences we really do like to invest in the people and bring value, so we're always reviewing every aspect of our business, in the light of new technology. There's a whole new horizon when it comes to things like mobile ecommerce. How customers interact with technology in stores, social media – a whole load of things there that we're scratching the surface of."

"In terms of the strategy, we're a business that's had steady growth, we've just paced it nicely, and we're carrying a little bit of debt but not a lot," says Mr Temple. "We've realised by looking at how quickly Genesco has grown that we could do a little bit better. We're convinced that the marketplace is out there for us." 🍇

Schuh's target audience is aged between 15 and 24, so as a retailer it is essential that it is up to date with the latest trends.

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