

BRITAIN'S LARGEST LOCAL PLAYER

Few would deny that times are tough for traditional multiple drinks' retailers in the British high street, but the recent sale and almost immediate £260 million (€387m) resale of the Thresher Group, Britain's largest 'local' player, has brought a renewed focus on the challenges facing this sector, observes Andrew Catchpole.

The British high street is clearly a category in serious decline, with businesses haemorrhaging as collective high street sales spiral down by 8% year on year, according to AC Nielson. Unwins has been disbanded and Oddbins' owner Castel is widely rumoured to be looking for a purchaser for the once sparkling chain. And Thresher, by far the largest high street operator with around 2,000 stores, including Thresher off licences, Wine Rack, The Local and Haddows in Scotland, collectively employing some 12,500 staff, is being closely watched as new owner Vision Capital private equity group reviews the business and prepares to reveal its future strategy. The scrutiny will be intense. Put simply, commentators and trade pundits are asking if anyone in Britain can make money from this kind of operation any more.

The tough trading conditions in the high street are well documented. As British wine sales plateau, slowing to 2.1% growth last year at £4.32 billion (€6.43b), the lowest level of growth in memory, the onslaught from the major multiple grocers continues apace. Planning curbs have begun to rein in some of the unprecedented out of town expansion by supermarkets - an expansion that has relentlessly sucked consumers out of the high street - but those very supermarkets have turned their attention to the high street itself. The likes of Tesco, Metro and Sainsbury's Local stores are now providing further competition in the locals' back yard. Tesco alone now accounts for 29% of the total British off-trade market and when combined with Sainsbury, Asda, Morrisons, Somerfield, Waitrose, Co-op and Marks & Spencer, the multiple grocers' share comes in at a whopping 85.2% of the total British off-trade according to AC Nielson.

A change at the helm

Add in the burgeoning number of on-line retailers, and the continued success story that is Majestic - the by-the-case wine retailer whose latest figures show another bumper year with wine sales up 11% and pre-tax profits up 14.1% - and Thresher's plight is all too visible. But it is against this background that the company must fight to survive and, if possible, grow. In order to understand what Vision Capital has got for its money and what plans it may have for the business, currently under wraps, its first worth looking at Thresher's recent history and how it has shaped the current business.

No stranger to reinvention, Thresher has been through many upheavals in the past decade. As the off-trade drinks retailing arm of Allied Domecq, it was grouped with Victoria Wine and Bottoms Up under the umbrella brand First Quench when Allied and Whitbread merged in 1998. Soon after, in 2000, Guy Hand's private equity vehicle Terra Firma bought First Quench and its 2,600 variously branded off-licences for £225m. This marked the beginning of a troubled financial period which, according to a Financial Times report in 2004, culminated in accelerating losses, showing a 13% fall in full year sales to £802m, resulting in pre-tax losses up 31% to £36.4m for the year to February 2004.

Two months later, Hand drafted in Roger Whiteside as chief executive officer, whose recent accomplishments included the set up of Waitrose-aligned on-line retailer Ocado and M&S Food Business. Whiteside assessed the loss-making business, which by then counted seven brand identities in its portfolio: Thresher Wine Shop, Thresher Off Licence, Thresher Drinks Cabin, Victoria Wine, Bottoms Up, Wine Rack and Haddows. He then set about streamlining and revitalising the Group. "The focus, which continues today, was to merge seven brands into three, with the nature of each style of outlet dictated by customer needs," said Whiteside. "The brand focus had to be clearly defined in each group."

Three for two

As Whiteside began categorising each of the then 2,600 off-licenced premises and preparing for change, he also revealed the first in a series of radical initiatives to drive sales at the main Thresher's brand.

In March 2005 Thresher's unveiled its ongoing buy three for the price of two deal, covering every wine in the shop. The result is that 90% of all wines are now sold as part of a multiple discounted deal. The success of this ploy is difficult to assess. One inherent difficulty is that convenience customers looking to purchase just one bottle are turned off by Thresher's because of the premium they are asked to pay on a range that includes many branded wines that are easy to price check elsewhere. Whiteside, who has described three-for-two as "the best thing we've done," nonetheless recently admitted "it's really only achieving a higher average spend out of an existing, and diminishing, base of consumers who shop in multiple specialists".

RETAIL PROFILE

Meanwhile, the new look Wine Rack was launched in October 2005, replacing Wine Rack and Bottom's Up, aiming to square up with what Whiteside described as "the wine specialists". So far 25 stores have been refurbished and rebranded as the new Wine Rack, with celebrity wine commentators, including Oz Clark, being drafted in to support the openings. With managers who have undergone the highly regarded Wine & Spirit Education Trust (WSET) training, plus an 80%-20% wine and spirits sales split, the message is clear: Wine Rack is serious about wine. The concept is competing in a niche market, that of the independent specialist retailer, which includes upmarket independents such as Jeroboams and Philglas & Swiggot, plus prime chains like Nicolas and Oddbins, which are all chasing an upward trend to better wine among a small, but significant, segment of British society. Up to 100 more Wine Racks were originally planned.

Hot on the heels of Wine Rack came the pilot for The Local, best described as a licensed convenience store, where milk, newspapers and other sundry day-to-day items are sold alongside drinks and cigarettes. Whiteside aim to roll out up to 800 of these stores in local high streets and neighbourhoods, competing with the convenience retailers including Spa and locals corner stores. Many of the 200 Unwins sites purchased in December 2005 are likely to be among this number. Whiteside insists that for now at least the roll out of both Wine Rack and The Local will continue apace, though Vision's review and new strategy for the Group – likely to be revealed later this summer – may bring in further radical changes.

Thresher's sold

Thresher's itself remains at the core of the business and here, too, Whiteside has busied himself with initiatives beyond the three-for-two in an attempt to stem the declining

QUOTE UNQUOTE

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Roger Whiteside, CEO, Thresher's

Under Whiteside, a number of major initiatives to drive sales were unveiled, from a Buy 2, Get 3rd Free promotion, to unveiling a new look Wine Rack, with its emphasis on wine knowledge. Further changes are to come.



customer base. These memorably included Threshers+Food, an experiment in selling ready meals alongside drinks, which failed and was pulled. Before the birth of The Local, further convenience retailing was tried across the brands, with individual stores – be they Wine Rack, Thresher's or another part of the estate – singled out as candidates. Whiteside admits that "this also failed", leading to consumer confusion over the off-licence brand. More successful has been Whiteside's recent instigation of a franchise scheme for Thresher's and Local stores, encouraging either existing managers or new recruits to become owner managers. Around 120 franchisees have already signed up, with 55 going 'live' to date, against an initial target of 600-odd franchised stores. So far Wine Rack remains outside the scheme.

Official figures are unavailable, but most commentators agree that under Whiteside's direction Thresher's will have curbed the kind of losses seen in 2003-2004. However, Guy Hand obviously decided enough was enough and, following a £200m sale and leaseback deal on the group's freehold properties in May this year, Terra Firma sold the business to

1 Time Line

1998 Whitbread and Allied Domecq merge their off-licence businesses to form First Quench

1999 (Sep) Allied sells its 50% share to Punch

2000 (Oct) Whitbread and Punch sell First Quench to finance group Nomura, run by Guy Hands

2001 (Oct) David Williams appointed Chief Executive with remit to 'reawaken the sleeping giant of high street'

2002 (Apr) Thresher's is transferred to European private equity group Terra Firma

2003 (Feb) First Quench rebrands itself as Thresher Group to 'reflect the focus on core brand Thresher'
Announces launch of Origin, a single wine brand with a range of globally sourced grape varieties

2004 (Apr) Roger Whiteside appointed as Chief Executive of Thresher Group

2004 (Sep) Thresher announces the launch of The Local

2005 (Mar) Thresher Group launches its Buy 2, Get 3rd Free promotion across all wines

2005 (Oct) Thresher launches new format Wine Rack

2005 (Dec) Thresher acquires 200 former Unwins stores

2006 (Oct) Celebrity chef Gordon Ramsay becomes 'the face' of Threshers following sponsorship of his Hell's Kitchen show

2007 (May) Guy Hands pushes through £200m sale and leaseback deal on Threshers freehold estate

2007 (Jun) Terra Firma sells Thresher Group to Edmund Truell's Pension Insurance Corporation for an undisclosed sum

2007 (Jun) Edmund Truell sells on a 75% stake on to Vision Capital for £260m, retaining an £85m pension fund estimated to be up to £20m in deficit

Thresher Group

CEO:	Roger Whiteside	Number of stores:	2,000
Brands:	Threshers, The Local, Wine Rack, Haddows (Scotland)	Staff:	12,500
Customers:	150 million a year	Owner:	Vision Capital

Edmund Truell's Pension Insurance Corporation in June for an undisclosed sum. Though few believe Terra Firma made a profit against the original £225m purchase of Thresher's, the company publicly insisted that it had banked a profit in real terms. The sale and leaseback monies raised, however, are understood to have primarily been ploughed into squaring bank debts and the retail operations themselves. Within a week, Truell sold Thresher to Vision capital for £260m, retaining a 25% stake and an £85m pension fund that is in deficit.

Business review

The interesting point here is that Vision is unlikely to be in the business of stripping assets and moving on. Put simply, following the sale and leaseback, Thresher's is essentially a trading brand without assets to strip. The way forward would appear to be to trade into profitability. This has led many in the trade to question what it is that Vision can do that hasn't already been tried. Or, of course, Vision may have jumped aboard with canny precision at precisely the time when Thresher's is poised to turn the corner. There is, too, the possibility – again suggested by many analysts – that the number of outlets in the Thresher's Group will be trimmed in response to the whole being simply too big and unwieldy, with too many unprofitable stores.

Whiteside is unable to comment on any of this speculation until Vision's comprehensive review of the business is complete. The line from Vision at the time of the deal seems standard enough, although there may just be a kernel of truth in the following assertion made by Julian Marsh, chief executive of the venture capital group: "With the support of Goldman Sachs and other investors we look forward to acquiring this established business with potential for further growth and working with their management team to achieve it".

Brave words according to Tim How, managing director of Majestic Wine Warehouses. "We obviously have a quite dif-



More than 90% of all wines moved by Thresher's are sold as part of a multiple discount deal, such as the Buy 2, Get 3rd Free promotion. They recently launched a wine club, called On Taste, which will be another channel for special promotions.



The Wine Rack stores underwent a design overhaul in 2005. There are now 27 outlets, which offer a wider selection of wines and spirits, including around 350 wines. Wine Rack also offers a Wine Club and price promotions.

QUOTE UNQUOTE

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Richard Cochrane, Bibendum off-trade director

Richard Cochrane, the off-trade director at Bibendum, suggests that what the high street needs to do is add more theatre back into wine retailing, so as to engage customers with the whole experience. The smaller independents are already doing this.



ferent set up, but we very clearly wouldn't want to operate where Thresher's is," said How. "We would never open on a high street, and never open a site without parking, because this is where the growth is, as our figures show."

Back to basics

Richard Cochrane, Bibendum off-trade director, offers a more mixed view on the sector. "The grocers have obviously taken a lot of custom with them and it is unlikely that the high street specialists such as Thresher's and Oddbins will win following this route," he said. "What they need to do is look at their points of difference, to put some theatre back into wine retailing, just as Majestic are doing, though admittedly to a slightly different audience."

Cochrane's point is that Thresher's, most especially with Wine Rack, but also with its mid-market Thresher's brand, needs to exploit its human scale. In other words, staff and customers need to interact and exchange knowledge to the benefit of both.

"It happens at Majestic and also smaller independent specialists such as Philglas & Swiggot," said Cochrane. "So there is no real reason why the customer isn't getting similar support at Thresher's."

So, does that mean there will be less emphasis on discount deals and more on hand selling the wines in future? Possibly it does, not least because a number of journalists and trade commentators have bemoaned the lack of excitement in the range at Thresher's. Wine Rack is better, but still there is room for improvement. However, if Vision can improve Thresher's performance not only would this be a remarkable achievement, but the ultimate prize could be a significant one.

Listed by the Times as the 13th largest privately-owned retailer in the United Kingdom, Thresher Group boasts a portfolio of stores with wide geographical reach. The same survey concluded that a Thresher's (or Wine Rack, or other company brand) was located within a ten minutes walk for 30 million British consumers. Theoretically, this should give the Thresher Group a big advantage, if Vision can rise to the challenge of pulling people in through the door once again. ■