Strategic and Governance Failure:

A Case of British Home Stores

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Outlines of the presentation

1. Introduction to BHS;
2. Strategic and governance mistakes made by management:
   a. Inadequate response to changing customers’ requirements;
   b. Inability to responding to competition in the market place;
   c. Poor structural and strategic decisions made; and
   d. Lack of corporate governance and transparency.
3. Conclusion;
4. Limitations of the case.

1. Introduction to BHS

- Established in 1928 by group of American entrepreneurs;
- Originally designed to compete with Woolworths;
- Significant presence on the high street;
- Target customers were middle income group;
- Revamped its logo and image in 1986;
- Franchise in middle east;
- Sir Philip Green purchased BHS for GBP 200 million in 2000 and delisted the store chain.
- In 2005, Philip opened new stand-alone BHS stores in former Allder’s outlets.

1. Introduction to BHS (Contd.)

- In 2009, BHS was incorporated into Arcadia;
- Sir Philip made several changes after acquisition:
  a. Updating the product range that BHS offered;
  b. Managing inventory more tightly;
  c. Positioning the company to respond quickly to changes in high street fashions;
  d. Carefully considering the supply chain and improving this area;
  e. Sourcing lower cost goods from alternative suppliers
- Being a non-listed company, the level of transparency was not high;
- Sold BHS properties to the companies controlled by Sir Philip

1. Introduction to BHS (Contd.)

- Sale of BHS properties used for working capital or to pay off debts;
- Sir Philip and his family got dividends of more than GBP 400 millions despite of inadequate profits;
- In May 2015, BHS was sold to Dominic Chappell for a token amount of GBP 1 at the time when BHS was having heavy trading losses and had a pension fund deficit of more than GBP 500 millions;
- Dominic Chappell had been declared bankrupt three times and had no retail experience;
- Pension fund deficit of more than GBP 571 million with more than 20,000 members;
- Sir Philip called to testify before parliament panel and being accused of assets stripping, not doing appropriate due diligence when finding a buyer, and poor management.

2. Strategic and governance mistakes

a. Responding to changing customers’ requirements;
b. Inability to responding to competition in the market place;
c. Poor structural and strategic decisions made;
d. Lack of corporate governance and transparency.

a. Responses by management

- BHS appears to have failed to find identify market needs;
- BHS failed to adopt appropriate proper digital strategy;
- It failed to introduce a robust online shopping solution as compared to John Lewis and Argos;
- It appears to have failed to retain customer loyalty;
- It didn't respond to emerging low cost retailers such as Primark and ASDA;

a. Responding to changing customers' requirements

- It was unable to offer affordable products;
- It was not quick to adapt new fashions like ZARA;
- Housewares market share eroded and captured by Aldi, Zara and Poundland;
- BHS did not keep up with the type of in-store experience;

b. Inability to responding to competition in the market place

- Failure to enhance the customer shopping experience to attract customers to the store;
- Failure to keep pace with the fashion changes in their products;
- Sir Philip didn’t appointed strong management to BHS;
- Sir Philip was enable to oversight of the performance of BHS;
- BHS ignored the rise of cut price retailers such as Primark who offer reasonable quality clothing at a significant discount over BHS prices.

c. Poor structural and strategic decisions made

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- Not modernizing its image through better advertising and other promotional activities;
- Misalignment of Arcadia and BHS strategy;
- Not focusing on cost reduction (high rents, unattractive locations of stores, long term lease agreement);
- Profit center concept was not used to measure each stores' profitability;
- No involvement of strategy consultants to make strategy more market oriented and responsive;
- Outsourcing "back office" services to Arcadia without gaining a detailed understanding the impact of cost.

d. Lack of corporate governance and transparency

- The sale of valuable real estate to the companies controlled by Green or his family. These were then leased back to BHS;
- The amount of dividends drawn out of BHS by Green and his family in excess of the profits;
- The pension fund had been allowed to become this fund bad without any action being taken;
- BHS had accumulated large debts. Many of these debts were to Green and family controlled entities.

3. Conclusion

- Despite the fact that BHS had promise as a going concern, no buyers were forthcoming;
- BHS is under liquidation with direct loss of more than 11,000 jobs;
- The pensions of more than 20,000 individuals are now in doubt;
- Sir Philip Green was interrogate by parliamentarian committee;
- The brand image is deteriorating.

4. Limitations of the case

- The case is based on publicly available information such as newspapers, magazines, websites and other refereed articles;
- The author has no access to inside information;
- The author never worked for BHS as employee, auditor or other capacities;
- The author never interviewed any party related to BHS;
- The author never investigated the BHS fraud.

Question & Answer