



# DFS

The furniture specialist has emerged from the housing slump with a renewed sense of purpose

## RetailWeek KNOWLEDGE BANK



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### BY BEN COOPER

DFS has become one of the winners in the difficult big-ticket furniture market. Although sales have fluctuated significantly since 2008, in the context of a severe housing slump that decimated much of the sector, DFS has fared better than most.

While its rivals were floundering and in some cases calling in the administrators, for DFS the past few years have been a period of ascendancy and growth.

The demise of MFI in 2008 gave DFS the second spot in UK furniture retailing. And following a temporary pause in expansion, it has increased its portfolio by almost a quarter in less than five years. With only Ikea ahead of it in general furniture sales, and a clear lead in upholstery, DFS is still looking strong.

However, it has not been without its challenges. It suffered two years



DFS has increased store numbers since coming under new ownership in 2010

of sales falls – down 2.2% in 2010/11 and 2.1% in 2011/12 – before turning things around in the year to July 2013, when it posted a 7.4% increase in sales to £670.8m.

After regaining sales momentum, DFS suffered a wobble in the first half of this financial year after a warm summer and autumn led to a 1.3% decline. However, the retailer's boss Ian Filby remains confident of a good performance for the year as a whole.

Filby joined the business in 2010 when DFS was sold by its colourful founder Lord Kirkham to private equity firm Advent International. Until then, DFS had been run by

Kirkham both as a public and private company since he founded it in 1969.

With the new owners and boss came a new strategy: accelerated growth. Under Advent DFS has added 21 stores bringing its total to 100, increasing its overall floor space by 27%. This was a break with the norm for DFS. Under Kirkham's prudent stewardship the furniture retailer expanded slowly. It has been said Kirkham feared that by opening stores he would cannibalise sales of existing shops. He opened just eight shops between 2004 and 2010.

The recent expansion can be

### SOFA STATS

- **Executive chairman**  
Richard Baker
- **Chief executive** Ian Filby
- **Owned by** Advent International
- **Sales** £670.8m in the 12 months to July 2013, up 7.4% year-on-year
- **Operating profit** £48.4m
- **Number of stores** 100

explained by DFS having a private equity company as an owner. At some point Advent will seek an exit, so it will want to expand the business before it gets to that point. DFS is now worth an estimated £1bn and there is speculation about a possible IPO.

That would be a return to the stock market for DFS, which Kirkham floated in 1993. He bought it back in 2004 for £507m and it remained in his hands until 2010, when he sold it for £500m – £7m less than he had bought it for. Retail Week Knowledge Bank says this “presumably reflected the company's long-term borrowing of £327.1m”.

Under Advent DFS, which is a very big spender on advertising, has transformed its marketing from idiosyncratic no-frills price-orientated TV ads to a more aspirational style.

The retailer has continued to plough money into its product offering too, investing in Dwell this year and Sofa Workshop at the end of last year, in order to attract a broad customer base. It has also made improvements to its Nottingham factory to create greater efficiencies and this year began selling a selected range of beds in some stores.

DFS has invested heavily in its online offer, replatforming the website and ensuring it works across a range of devices.

Such investment has ensured DFS has remained market leader in sofas, and now that the worst of the big-ticket slump may be behind it, few would bet against DFS continuing to outpace the market.

### THE RETAIL WEEK KNOWLEDGE BANK VERDICT

#### Philip Wiggendaad, Retail Week Knowledge Bank analyst

DFS's improved performance does not appear to have carried over into the 2013/14 financial year, with sales declining 1.3% in the first half as footfall suffered from the warm weather in the summer and autumn, while profits have also been reduced.

However, trading is reported to have rebounded in the second half and there should certainly be scope to benefit from the recent upturn in the housing

market, particularly if disposable incomes also finally start moving forward again.

DFS benefits from being a vertically integrated business, and as the second-largest player in the market – behind Ikea – it also has much greater scale than most of its specialist competitors. As such, the company has continued to report healthy margins in recent years, while its sales densities are also among the highest in the furniture sector.

Despite DFS's dominant position,

management is continuing to evolve the format. Recent marketing activity has been much more focused on the brand than price and it is attempting to appeal to a more aspirational consumer, for instance through its investment in Dwell and Sofa Workshop. With consumer confidence on the rise again of late, this change of strategy could prove to be well-timed and there is also scope to benefit from the continued investment in the online channel, with a fully transactional site having launched in late 2013.