

## ANALYSIS

The beds retailer has left losses, dissatisfied staff, unhappy customers and inefficient stores behind it since Mike Logue took the helm, writes **Becky Waller-Davies**

# Profits rise at Dreams as boss beds in changes

**D**reams boss Mike Logue admits the prospect of turning around the failing beds business intimidated him when he took the job in August 2013.

Greeted by sub-standard product, disengaged staff and dissatisfied customers, he had his work cut out. "Coming into the business, seeing the product and reading the customer letters and staff feedback was scary," he says.

But Logue's days of heading a loss-making business are firmly behind him.

"We were planning for EBITDA of £15m last year," he says. "The business has gone from losing £5m a year to making £21.8m in the space of two years. We are only in the second year of a three-year plan but we are ahead of schedule.

"Yes, the timing is good as the market has improved but we are improving at three to four times the market rate. The speed of this journey has been incredible."

That speed has been fuelled by "product and people", according to Logue, as well as £18m investment from owner Sun Capital over the past three years.

"Our employees are delivering 23% more sales per person than they were two years ago," he says.

## Financials

- EBITDA up 216% to £21.8m in year to December 23, 2015
- Like-for-likes climbed 18.6% over full year and 30% in the second half, which management says has continued into 2016
- Total revenue now stands at £234m, up 16.2%

"Our team is engaged. We see from internal surveys that our engagement levels have gone from being in a dark place two years ago to employees understanding our company values."

## Growing conversions

That 23% sales increase per head has been accompanied by a sales conversion rate that has jumped from 14% to just under 20%.

And, sales per square foot have climbed from £111 in 2013 to £146 in 2015. That is down to better product, engaged staff and revamped stores, says Logue.

Dreams spent £5m on store renovations following customer concerns highlighted by the retailer's Pillow Talk feedback tool. The investment took just six months to pay back.

Logue inherited a returns rate of more than 13% when he joined the business just after it had been bought out of administration. That figure has now shrunk to below 5%.

The reduction has been powered by an overhaul of the way Dreams approaches its Asian manufacturing plants.

"We now have a quality and assurance team inspecting factories and product in Vietnam and Southern China," Logue says. "The return level of that product is down to between 2% and 2.5%. In 2012/13, that level was 30%."

Outside Asia, Dreams is about to begin receiving product from Eastern Europe, and Logue is keen to bring some of its external supply chain closer to home.

Part of Dreams' success is down to owning much of its own supply chain and fulfilment capabilities, from its Midlands factory to its own vans. "I make it, I sell it, I deliver it," says Logue. "We're in a good place."

That model means Dreams is market-leading in the mattress industry and has increased its



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Mike Logue, Dreams

share of the wider bedroom furniture business to about 12%, although that figure is unaudited because of a lack of clear data.

## Future prospects

While Logue is happy with the progress the business is making in its factories and stores, there is more to do across its distribution network.

Dreams' management is also reassessing its ranges. Logue put some categories under review when he joined.

"We came out of furniture over the past two years," he says. "I really didn't feel we could deliver it well. The rate of returns was very high and the net profitability was non-existent."

"We have just launched into kids again and you will see us at tail-end of 2016 addressing the gap in furniture."



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## Property

Dreams dramatically downsized after being bought out of administration. The beds specialist used to operate 270 stores and it has 170 today.

Logue sees scope for 60 more stores over three years. "But only if they continue to deliver rates of return that we've been seeing," he says.

Logue is eyeing regions including the Northwest and the Midlands where Dreams "closed too many stores". He says: "The great thing is that we know the sales figures for those stores, we know what they were making."

Another venture Logue is considering is concessions – Dreams is in discussions with several department stores at the moment and will pilot a concession model this year.

In the longer term, Logue is piecing together a new three-year strategy. While he remains tight-lipped on much of the detail he says a new web platform is on the list, together with other investments in technology, which will give the retailer a single view of the customer.

As important as investments in technology are, Logue is very aware that the majority of Dreams customers do not purchase online and does not believe this will change dramatically in the short term.

"Our customers will want to try out our products in store for a long, long time to come," he says. "But I think as the next generation comes that could change. This generation are buying seven colours of one dress and sending six back."

"As they come into mattress market in their mid-30s you will see people be more comfortable buying that sort of product online – and we will be ready for them."

While Logue is bullish on the business of running Dreams he is more reticent about commenting on its ownership prospects.

Furniture peers DFS and SCS both floated in the past year but Logue refuses to be drawn on any exit strategy for Dreams.

Logue does concede though that he does not favour the prospect of a float. "I am not a huge fan of the ups and downs of stock markets," he says. "I would far rather go down a trade sale route but it is not my decision. For now I am just excited to be running the business."

And he is not resting on his laurels. "We currently have a 9.2% profit margin," he says. "The best in class that I have ever seen in US, UK and Europe in a vertically integrated business is 12%."

"My goal is to reach that. And with the revenue growth of new stores and continued efficiency I don't see why we can't do it."

Given what Logue and his team have achieved so far, you would not bet against him.

## New formats

Logue is not just eyeing more stores but different-sized formats too.

The average Dreams store today is 8,000 sq ft, down from 14,500 sq ft when Logue joined. He says anything above 8,000 sq ft "confuses" the customer with too much product. When he joined the business there were stores as big as 24,000 sq ft.

Logue aims to continue to reduce Dreams' average footprint. At present it operates 50 stores above its target 8,000 sq ft.

In fact the retailer has opened a shop as small as 2,000 sq ft in Warrington that Logue identifies as a mattress specialist.

The retailer's Dreams at Home format, which includes a Sabichi concession selling home-ware, was a "toe in the water" when it first opened shortly after Logue joined. Located in Watford, the store's success has taken the retailer by surprise and it is now planning on opening a further two, in Milton Keynes and Aylesbury, Buckinghamshire.

