



# THE REINVENTION OF DUNNES STORES

The notoriously secretive retail giant is keeping quiet about the very obvious upmarket changes at its flagship store in Dublin's St Stephen's Green Shopping Centre. **Róisín Burke** and **Colette Sexton** report

**S**candinavian-chic charcoal and white decor, gleaming white futuristic checkout areas and discreet, stylish lights. It may sound like the interior of a rather posh high street boutique. But no, this is the new incarnation of a retailer long associated with laminate wood flooring, glaring lighting and booming voices reciting special offers and deep discounts. Ireland's biggest indigenous retailer has gotten a makeover. This is Dunnes Stores 2.0.

Instead of the St Bernard brand, customers now get Paul Costelloe, Carolyn Donnelly, Lennon Courtney and Paul Galvin. Slowly, surely, Dunnes is moving away from the "stack 'em high, sell it cheap" mantra installed by the group's founder Ben Dunne senior, and reinforced by his son Ben junior. Now, Dunnes is actively buying up coffee chains (Café Sol) and artisan butchers (it snapped up businesses associated with the high end butcher Pat Whelan just last week) to add to its instore experience.

There is even industry chatter that the retailer might launch a sub-brand and re-brand a number of its more stylish stores under a new name.

But what has driven the sudden change of strategy by one of Ireland's most successful, and secretive, businesses? Some believe chief executive Margaret Heffernan is cannily repositioning Dunnes upmarket to avoid being outmuscled by the German discounters on grocery and Primark on textiles. Others question if the company is being smartened up for a potential sale. Notoriously secretive, Dunnes Stores, a €3.5 billion giant with 115 stores across Ireland and Britain, is not saying anything. But, without question,

Dunnes is being reinvented.

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*Margaret Heffernan, the teak tough matriarch of the Dunnes Stores retail empire, has long harboured ambitions to bring the chain upmarket. Once, before her brother Ben was ousted from the business, he flew to Singapore and purchased £20 million worth of cheap nylon shorts without informing her. Heffernan sent him straight back to cancel the order.*

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**O**ne former very senior Dunnes Stores executive said that a major operational rethink has actually been in the works for

a long time. "When Margaret Heffernan took over and after they ousted Ben Dunne, she took the business upmarket at that point," the source said.

Indeed as early as just over a decade ago, Heffernan ordered a more upmarket refit of many stores, introduced the contemporary Spanish fashion label Savida and commissioned slick photoshoots featuring models who had worked the catwalks in Paris and Milan. "So I see this as a continuation of that drive," the same source said.

But that drive has begun to rapidly accelerate now, due to the impact of attacks on both flanks of Dunnes Stores' business.

On the grocery side, German supermarket brands Lidl and Aldi have increasingly evolved from being bare bones deep discounters to invaders of the territory of Dunnes, Tesco and SuperValu. They're offering premium ranges, organic foods, Irish local artisan produce, handmade chocolates, quality wines and so on, all while continuing to undercut everyone



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else on price.

Then on the clothing side, Penneys/Primark has risen to rule the cheap but trendy clothes market on a massive global scale.

Dunnes Stores owners know it needs to critically step up its bid to distinguish itself and its proposition if it's going to continue to survive and thrive.

## Taking risks

This push to reinvent itself includes shifting its operation to a department store model across many of its locations, according to Euromonitor, a London-based market intelligence firm.

Euromonitor said its high-end fashion collaborations with the likes of Lennon Courtney and Galvin "all seek to redefine the retailer's apparel offering, aiming it towards the more discerning customer and moving away from its historic credentials as a value retailer".

It's not a strategy without risks. Lecturer in retail management at **Dublin Institute of Technology** Damian O'Reilly compares Dunnes' more upmarket clothing move to Marks and Spencer's, pointing out that the British retailer has not done well in fashion sales over the past ten years.

"The mixture of Irish designers in the Dunnes clothing range is not quite right," he said.

"The various designers attract different audiences and none of them have a big enough range to attract consumers in on

a regular basis. It sends a confusing message to shoppers, as Dunnes is not low-cost, but it is also not considered upmarket."

This is reminiscent of a similar reinvention Superquinn went through in the 1970s, according to Feargal Quinn, founder of the supermarket chain that was sold to Musgrave in 2011.

"When we launched in 1960, we started off with price, price, price," he said. "And then we discovered that to have the long-term approach, you have to differentiate. Dunnes seems to be doing very well in that. They are clearly adding value and quality."

On the grocery side he notes that Dunnes Stores has changed its tagline from 'Simply Better Value' to 'Simply Better' and this new change is reflected in the sale of high quality meat, fish and cheese alongside competitively priced ambient goods.

"Dunnes Stores appears to be targeting more affluent shoppers who want choice and good quality, similar to Superquinn's market in its heyday," Quinn said.



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Top; Dunnes Stores' upmarket new flagship store in Dublin's St Stephen's Green Shopping Centre; above, Café Sol; and right, a Paul Costelloe outfit

## Creative collaborations

Other changes and expansion plans are also afoot. Reports last year suggested Dunnes was poised to open 40 new stores in Britain, potentially acquiring a string of former M&S stores. In the end, nothing came of it. But there is a feeling that the chain will continue to explore opportunities in the North and in England.

In the shorter term, Dunnes is targeting online shoppers. Euromonitor said online retail is an area Dunnes is set to develop this year, bringing its entire product range online, especially in the grocery division.

This would be quite a departure. A late-comer to the digital retail party after years of false starts and under-investment, it launched its online selling service for fashion and homewares only in 2013, and a 'click and collect' grocery service for its flagship Cornelscourt store in Dublin in 2015.

But if Euromonitor is correct, citing sales generated by internet retail at Dunnes as having risen from €3 million in 2013 to €20 million in 2015, it needs to do more.

"Its online grocery shopping service is expected to be rolled out nationwide in the near future," Euromonitor said.

However, one Dunnes insider, speaking on the basis of anonymity, said fears of cannibalising stores' sales could yet halt this.

"There is a Dunnes Stores within ten minutes of 95 per cent of households in Ireland. They don't want to diminish those store sales," they said.

Certainly, the investment in in-store design is significant. Take the case of its outlet in St Stephen's Green Shopping Centre, located metres from Grafton Street.

GAA star and fashion blogger Paul Galvin's signature collection of military style bomber jackets and carbonised cotton T-shirts is in pride of place in menswear, and golf sensation Rory McIlroy's collection is nearby.

In womenswear, Dunnes' exclusive 'creative collaborations' with the likes of Lennon Courtney, Carolyn Donnelly, and

Paul Costelloe are the first thing that greet you, promoted with gorgeous high fashion photography.

There's even a hipster-look chair in one corner.

Downstairs, the grocery section has been paved with tasteful slate tile and has a branch of Sheridan's cheesemongers, a well-stocked delicatessen and a wholefoods area worthy of a South County Dublin farmers' market, and tasteful Helen James crockery on display.

James formerly worked in New York with Donna Karan and has produced a range for Dunnes' increasingly stylish and premium homewares section where Donnelly and Costelloe also have lines.

Will craft butcher Pat Whelan, whose business, as first reported by this newspaper, is being acquired by Dunnes Stores, provide the artisan meat counter element to this type of new format?

And what about Café Sol, the coffee chain snapped up by Dunnes pre-Christmas? Its founders helped Dunnes to launch its trendy Considered Café, a whole new out-of-store concept, with more to come.

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Behind the scenes, change and reinvention are being plotted. A hiring drive brought a big injection of new blood at the start of last year and Dunnes, which tends to almost always do things with its own in-house expertise rather than outside consultants, recruited a string of project managers skilled in areas such as store and concept redesign and online retail. This young cadre seems to be helping inform a seismic shift upmarket.

Also notable were the early signs of a change in temperature from nuclear winter towards spring thaw regarding media engagement when Dunnes held an actual press event last year, inviting a chosen few journalists to check out the latest in its Simply Better range, where a Dunnes executive chatted openly and effusively to press over a fancy lunch.





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This is something normal for most retail outfits, but a never-never for Dunnes Stores. Until now. A summer barbecue press event is being planned.

Not since Ryanair decided to get all warm and cuddly with customers has there been such a sea change to an Irish consumer business's approach to publicity.

## New instore?

Last week, Dunnes continued its acquisitions streak with a proposed deal to buy two meat wholesaling businesses controlled by the family business of prominent Tipperary butcher Pat Whelan.

Dunnes, as first reported by Businesspost.ie, notified competition officials of its intention to acquire Whelan Food & Meat Processors and Tipperary Sustainable Food Company. Whelan also operates a chain of high-end butchers' shops, including outlets at several Avoca stores, but these will reportedly not be part of the deal with Dunnes.

As regards its new craft butcher acquisition, a former Dunnes senior figure said this wasn't an entirely new departure. Dunnes acquired a Cork craft baker five years ago.

"It first took a small space inside Dunnes stores and paid for a craft baker to be there selling as shoppers went by. It was quite successful in the five shops in which it was trialled. So they were told let's upscale to 40 shops, but they had no money to upscale to that size, so Dunnes bought them.

"But they were cannibalising their own business," the source said.

"As for specialist butcher counters, they have been a problem for retailers all over the world.

"With most products you buy Kellogg's cornflakes for X and sell for Y, but meat is not like that.

"It's quite specialised to work out what is the right price and very difficult to keep on top of profits made. That's why big supermarkets tend to prefer selling prepacked meat, or to have people who look like butchers, but are cutting pre prepared joints."

O'Reilly of DIT said: "I don't see Dunnes moving into a food department store with a baker on the left and

a fishmonger on the right. Morrisons has that in Britain and it has struggled."

Just over a year ago, Dunnes opened its first ever entirely separate non Dunnes Stores-branded business.

The Considered Café is on Drury Street in Dublin, with cool fittings – cutlery in old Bordeaux wine cases, exposed brickwork and pots of preserves and not a Dunnes logo in sight.

It was Café Sol's people that Dunnes approached to advise on the Considered Café. Now, with Café Sol and its founder Emmet Daly subsumed into Dunnes as hospitality director, it looks like there could be more along similar lines to come in Dublin first and then around

the country.

As it is, Dunnes is possibly the biggest café owner in the country. Of its 75 stores, around 60 have cafés and restaurants and now it has added ten Café Sol premises.

"On its own it's a substantial business, but it's not their core activity," the Dunnes insider said. "I would say an opportunity presented itself to buy Café Sol, and that way create a brand with something readily recognisable and appealing.

"That's precisely what they needed. When I was there we were always looking to see who we could get to run the cafés, while the senior high-profile jobs were on retail.

"Being put into the cafés was seen as a sideways career move, even though it's a huge business."

The purchase of a coffee chain is understandable, Damian O'Reilly said, given John Lewis and Penney's partnerships with Caffè Nero and Insomnia respectively.

"They are looking for the integration of a high street brand into the store. I'm not sure that will work," he said.

"Tesco attempted something similar with artisan coffee chain Hoole and Harris and Giraffe restaurants in Britain and it was not successful."

While tapping these interesting new high-end directions, Dunnes has not entirely lost sight of the price battle that all supermarket retailers monitor constantly. But it will seek to compete with guile rather than an all-out unwinnable price war.

"While Dunnes will not engage in an

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all-out price war with the discount operators, they will continue to give strong discounts to existing shoppers through vouchers and its loyalty card, and hold onto customers, especially family shoppers and larger shoppers," the former top executive there said. Its discount voucher scheme has been critical to its growth.

"A move towards couponing and money back offers has helped the retailer maintain its market share," agreed O'Reilly.

"However, this is not a sustainable strategy in the long term, because customers who already shop in Dunnes Stores are buying more, but it is not attracting new customers to come in."

## The product mix

While stores, product layout and offers have been improved to coincide with the reinvention of Dunnes Stores, its success hangs on whether it nails that mix of premium and value brands right, according to Kay McCarthy, managing director of strategic planning agency, MCCP. Premium can't work without value too.

"Consumers want to treat themselves, but they are also looking for value, and as a result Dunnes Stores cannot afford to be niche," she said. "It needs to appeal to both spectrums."

"There are more people back in the workforce, so there is a consumer out there with more money, but that consumer isn't going to spend unless they

really feel like it's worth paying more for," she said.

"The company now needs to focus on transforming its brand, because at the moment, people still associate it with value, as opposed to premium and quality goods. It is easy to change the inside of the store, but it is very difficult to change the inside of a culture, and Dunnes Stores needs to embrace that change in order to really reinvent itself."

"Dunnes needs to give people a reason to like the brand and to give them a reason to go to them, trade up and pay more," she said. "They need to warm the brand up. People are starting to like Lidl and Aldi, and not just because of great value, but because they have strong brand communications."

What would Ben Dunne snr think of the break away from its core price-sensitive customer base to the more discerning shopper?

Well he too was an innovator in his day and a pioneering adopter of the brand new superstore format where customers could browse at will that revolutionised Irish retail.

He would probably adhere to the 'innovate or die' business adage.

And will the family be the ones to innovate into a new generation?

In time-honoured fashion, no one from Dunnes Stores will comment on any of this, but a line on its website sets out something of its mission: "We continue to be run by Ben Dunne's family. Dunnes Stores is not merely a name above the door, it is his legacy."



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## Who is driving change at Dunnes Stores?

The ownership of Dunnes is complex, controlled through three classes of ordinary shares.

One third is owned by Heffernan and her family, and one third by her brother Frank Dunne and his family.

The ultimate ownership of the final third is unclear, but other family members are getting increasingly involved.

"I never worked in a business where the inter-

nal drive to improve was so strong," said one insider.

"It's constantly: 'how can we do this better?' with Margaret in particular and Frank [Dunne, Heffernan's brother and fellow director] to a lesser extent.

"They'll say, 'they have this type of technology in Japan' or 'this going on in America'."

Heffernan remains the undisputed boss despite stepping back from some

company directorships, sources said.

Frank Dunne, who had been content to raise horses and farm his Meath lands, has been much more involved in recent years especially on the grocery side.

Heffernan's closer affinity is for fashion and homewares.

It is said that Margaret's daughter Anne Heffernan, a doctor by training but a director of the businesses,

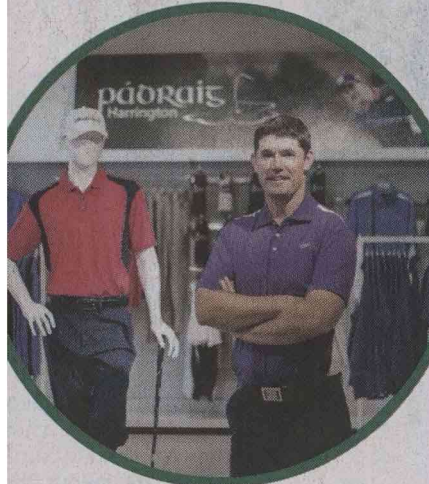
is involved to a greater degree than before.

Sharon McMahon, a daughter of Margaret's sister the late Elizabeth McMahon, has been closely involved for years.

Favoured outsiders close to the top at Dunnes Stores include James Wilson, the former Superquinn and Asda director who is in charge of the food side, and long-time Dunnes stalwart John McNiffe, who runs store operations.



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From top, Lennon & Courtney, Padraig Harrington and Paul Galvin all have fashion ranges in Dunnes