

A retail success story

Ian Marcousé examines the strategy of outdoor retailer Mountain Warehouse

In early September 2024, Mountain Warehouse struck a deal to buy Eastern Mountain Sports (EMS), a company based in the USA, for £7.6 million. It was able to do this for cash. This is pretty amazing for a British company that started with one shop in Swindon at a time when two big chains, Millets and Blacks, had shops in nearly every town in the UK.

Mountain Warehouse was established by Mark Neale in 1997. Today it has 370 stores in nine countries, with plans to open 50 more in 2025. The business had profits of £26.2 million in the year to February 2024. Unusually, and impressively, Neale is still the chief executive officer (CEO) of the business.

Neale uses three key strategies for the business. Firstly, the company sells individually designed products under the Mountain Warehouse brand. This gives a high level of control over design and manufacturing quality – and a much greater scope for strong profit margins than when buying in branded goods. The second strategy is the huge focus on customer service, based on shop-floor staff knowledge. Thirdly, Mountain Warehouse has a strong use of in-store discounting to move on products that are selling poorly, with some products discounted by 70%.



Mountain Warehouse has been trading in the USA for 10 years through more than 50 stores. But there still should be some concern over whether its recent purchase of EMS has been wise. Neale says, 'the US is by far the biggest outdoor market in the world. We're building a global business, so we can't ignore the US.' It is great to see such ambitions, but UK retailers have often struggled in the huge American market. The product fit between EMS and Mountain Warehouse looks great, but that does not guarantee success. It will be interesting to see the outcome, 1 or 2 years down the line.

Questions

30 marks, 35 minutes

- 1 Assess the benefits Mountain Warehouse may gain from its CEO being the entrepreneur who began the business nearly 30 years ago. (10 marks)
- 2 Assess two possible benefits to Mountain Warehouse of buying EMS for cash rather than borrowing to finance the purchase. (8 marks)
- 3 Use Ansoff's matrix to help assess the wisdom of the company's decision to buy EMS. (12 marks)

Answers and marking

- 1 The first benefit is the likely consistent drive and passion from the person who started the business. A new CEO may leave an operational problem to

middle managers. Neale probably does not – or if he had to, he would be likely to closely monitor their work. Professor Herzberg has said that the average member of staff probably gives only 50% of what they could give to a company – this applies to bosses as much as junior staff. Just as laziness at the top can impact the culture of the business, so can drive and passion.

A second benefit is a rich organisational culture that will have been built up within the workforce over time. It is important to realise that this is not just a repeat of the first point. Culture can be affected from the top but it is often formed within middle management – or those middle managers who stay. The latter point is where the boss fits in. One who has been there from the start has probably kept faith with the managers who were there at the start. They will know Neale's way of doing things – and can pass that on to other staff. On the other hand, it could be that the culture turns complacent – and rejects new ways of doing things. The balance can be hard to strike.

Another benefit is the deep insights that will have come from experiments that failed and new ideas that worked brilliantly. In many firms, organisational knowledge seems wafer thin, so the same mistakes are repeated. On the other hand, it is possible that an approach that failed 10 years ago may prove a success this time around.

- 2** One benefit is that cash carries no interest charges. So, even if interest rates surprise people by rising rather than falling, Mountain Warehouse will be fine in terms of its income statement/profit. When interest charges are so high that they eat away a company's profit, it is impossible to finance growth in the way this company is so keen to do. You cannot 'build a global business' if you are constantly struggling to achieve profits.

A second benefit from a cash purchase is that it is speedy and uncomplicated. Neale should have been able to negotiate toughly to get a good price from the administrator. If you are waiting to see if

the other partner is actually going to complete, you would want a higher price to pay for the uncertainty. With £7.6 million in his back pocket, Neale will have achieved the lowest possible price.

- 3** Ansoff's matrix is a risk/reward grid warning of the risks of straying too far from the comfort of your customer base (existing products in existing markets). The text makes it clear that the company has considerable experience in the USA, meaning that it should not make any crass mistakes. But 50 stores tells you relatively little. If they are all on the West Coast of the USA, the trading conditions they find on the East Coast or in the Midwest may be very different. Other UK stores that tried and failed in the USA (such as Tesco and Marks & Spencer) tended to tackle it in their prime – so the difficulties should be taken seriously. Ansoff's whole point was that managers tended to underestimate the challenges of new markets – so he may question the wisdom of this move.

Fortunately for Mountain Warehouse there is a clear counter-argument: what is the worst that could happen? As the move is costing just £7.6 million – approximately a quarter of 1 year's profit for Mountain Warehouse – even a relative catastrophe is unlikely to do much to dent Mountain Warehouse's success in 2025 or 2026. Yes, the £7.6 million would seem a waste if it is all lost, or even if trading losses cause a further £7.6 million loss – but it is not plausible that this will drag the business down. It is a modest bet on the USA that might work – and will not break the bank if it fails to do so.

Ansoff might remain unconvinced that the risks are outweighed by potential rewards. But no accountant is going to beg Neale to stop the takeover. Neale has probably judged this takeover pretty well.

Find out more about our full range of magazines and online archives of back issues at www.hoddereducation.com/magazines

Did you like this article? Tell us what you think