Argos: Where's the shareholders value going to come from?

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Following the £1.4 billion takeover of Home Retail Group, Argos has new shareholders with expectations that they continue to exceed against market expectations, especially as the core Sainsbury brand continues to be under performance pressure.[1] Where do they turn to deliver growth?

Retail Week have documented the successful pivot of Argos to complete directly with Amazon and in 2015 reported that Argos was the first multi-channel retailer to achieve £1bn in m-commerce revenue.[2] Our own research team believes Argos, whilst still some way behind Amazon, attracts far more traffic than its UK rivals and looks like the only competitor who may be able to pull back the significant traffic advantage currently held by Amazon.

This scale is even more impressive when you factor in the number of products sold on Argos is 33,000 a fraction of the reported 200 million available on amazon.co.uk.[3] So is the opportunity for growth in range extension and if so how can Argos leverage its position whilst not weakening the balance sheet? The answer lies potentially with a marketplace.

What is a marketplace?

A marketplace allows third parties to sell their products through your website. There are a range of commercial models underpinning this set-up but broadly the marketplace owner invests in driving traffic to the site and recoups that investment by taking a percentage of the sale. The third party gains from far greater sales than it could achieve using its own brand and resources and the marketplace owner gains additional revenue without any of the costs of stock, warehousing or logistics.

The introduction of a 'marketplace' at Amazon has transformed their revenue. In 2015 they reported that marketplace products represented almost 50% of the revenue from Amazon.com.[4] The approach has been adopted – to varying degrees of success by UK high street stalwarts such as Halfords and GAME as well as e-commerce pure plays – such as ASOS and notonthehighstreet.com.

What are the key issues Argos would need to consider before such a venture?

1. Category and product requirements

Argos' range of product types is significant but there are key online categories missing – Audio and Video and others where they are significantly underweighted – they only offer fewer than 100 book titles for example. They need to work out where the growth opportunities are and where through offering additional products they could increase the value of the average shopping basket.

2. Positioning

Amazon's categories stretch from value to luxury. Argos places itself much more in the value segment of the market. They would need to decide what their marketplace extension would be. Can they become the place where value conscious shoppers can get everything they want in one place? Or could they develop a premium proposition?

3. Pricing strategy

To whom you give the 'buy' button is one of the trickiest questions, but Argos might be able to create an opportunity here. Many Amazon merchants would argue that, whilst Amazon are the main marketplace, they are greedy partners. They don't

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1 http://www.telegraph.co.uk/business/2016/11/09/sainsburys-defends-14bn-argos-takeover-as-profits-slip/

2 https://www.retail-week.com/technology/m-commerce/argos-becomes-first-uk-multichannel-retailer-to-hit-1bn-in-m-commerce-sales/5077343.article

3 https://export-x.com/2015/12/11/how-many-products-does-amazon-sell-2015/

4 https://www.theguardian.com/technology/2015/jun/23/amazon-marketplace-third-party-seller-faustian-pact

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just charge high fees but they can also snatch the buy button away from a merchant if a product is selling well and they can source it direct. Argos could develop a strategy where it automatically guarantees the buy button to merchants with additive stock and keep their fees under Amazon. This may encourage merchants with lower margin products to list with Argos – especially given the traffic they attract and the current brand positioning.

4. Promotion strategy:

Being disciplined by adopting an 'additive stock only' approach would also allow Argos to be focused on promotions that drive a mutually beneficial return. Clever in-store promotions can also help drive sales. The only challenge is how they create simple communications that exclude marketplace stock from their 'click and collect' and 'same day delivery' propositions.

5. Merchant recruitment and management

This is a key capability in which they would have to invest. It's not too difficult to recruit merchants, its much more difficult to recruit the right merchants and to partner them such that you both make a good margin.

Amazon's merchant services is a sophisticated proposition but it's not without its flaws and it has a contract that has come out of the sharpest legal minds they can afford. There is an opportunity out there for a proposition that treats merchants in a different way.

That could create a serious competitor: and if anyone can do it, Argos can. If anyone needs it just now, it is Argos' new owners and their shareholders.