

# Viyella operational review



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## Viyella (% of Group sales)

42.4%

	1999 £m	1998 £m
<b>Contract Clothing</b>		
Sales	305	350
Operating profit before reorganisation costs	(1)	2
Net assets	95	96
Return on year end net assets	(1%)	2%
Capital spend	13	8
Employees at year end	9,000	9,939

*Principal operations:* design, manufacture and sourcing of garments under retailer labels.

	1999 £m	1998 £m
<b>Fashion Retail and Branded Clothing</b>		
Sales	202	231
Operating profit before reorganisation costs	7	4
Net assets	81	85
Return on year end net assets	9%	5%
Capital spend	4	4
Employees at year end	3,980	4,029

*Principal brands:* Jaeger, Viyella, Berghaus, Van Heusen and Peter England.

	1999 £m	1998 £m
<b>Home Furnishings</b>		
Sales	157	168
Operating profit before reorganisation costs	7	5
Net assets	55	61
Return on year end net assets	12%	9%
Capital spend	3	2
Employees at year end	3,570	3,968

*Principal brands:* Dorma, Chortex.

## Contract Clothing

Despite a year of substantial change and achievement, the end result was disappointing. However, the strategy to build competitive advantage through a combination of product quality, on-time delivery, product innovation and the achievement of lowest cost in selected market segments has continued to make good progress. A further tranche of UK manufacturing has been relocated off shore and overheads have been reduced. The product business streams have been strengthened as a result, with better competitive positioning and significant niche market advantages.

However, there was a decline in sales to Marks & Spencer with a particularly disappointing out turn in late autumn. In addition, the competitive environment reduced retail prices which severely affected margins. In the short term it was not possible to make up the combined shortfall in volume and margin through reduced costs.

**Outlook** The business expects benefit from increased volumes as a result of supplier rationalisation by Marks & Spencer and from cost reductions and the other strategic initiatives already implemented. However, pricing pressure is anticipated to remain.

## Fashion Retail and Brands

There was a significant improvement in Jaeger, although there is far more potential to be realised. The focus during the year has been on reinvigorating retail disciplines – in pricing, service, product appeal and supply chain management – and on further reductions in the cost base including more sourced product. Margins

improved and there was an accelerating positive effect on volume during the year. The enhancement of the product range had only a limited effect on the Autumn 1999 programme; it will have a more visible effect on the Spring 2000 range.

Viyella slipped back in difficult market conditions and the fashion trend away from jackets had a disproportionate effect. Branded shirts again performed well driven by increased direct to consumer activity from its growing retail portfolio. Branded coats showed a significant improvement as Western Europe performed well and the completion of withdrawal from Russia eliminated losses. Brand licensing continued to perform well.

**Outlook** The UK retail environment will remain difficult with negative price inflation; cost control remains a key aspect of strategy. Volume will rely on constant innovation in product ranges alongside outstanding supply chain management and in store service.

## Home Furnishings

The UK bedwear business experienced a difficult first half year, with volumes and margins under pressure. The second half produced a significant improvement in demand, as the housing market recovered and the benefits of manufacturing rationalisation implemented early in the year were realised during the last quarter. Bedwear in continental Europe continued to suffer from its reliance on UK manufacturing and the strength of the pound relative to the euro.

**Outlook** Demand will continue to be driven by the housing market, which is currently buoyant.