

Made to Measure

*The shift from bricks and mortar to multichannel has been traumatic for many UK retailers. **Steve Cochrane**, owner of the department store **Psyche**, talks to Criticaleye and Santander's **Kevin Boyd**, about how he's set about making the changes which keep customers coming back for more*

Back in 1982, **Steve Cochrane** was a singer in a punk band called Sliced Tomatoes, playing gigs in pubs in the north-east of England. He designed the clothes worn by the band members – there was a new romantic twist – which grabbed attention and people said looked good, but the music itself was a little less well received.

As the dream of stardom petered out, the real world beckoned... kind of. Steve rejected the prospect of using his engineering degree for a career as “it wasn’t glamorous enough”, so the then 23-year old opted for working on oil rigs where the distinct lack of glamour was compensated for by the £1,000 a week salary.

After six months, Steve saved enough to pursue another idea that wasn’t exactly as mainstream as his parents would have liked, but it encompassed his passion for

style and was imminently more achievable than creating a punk meets new romantics smash hit: he opened a clothes store in the seaside resort of Redcar.

The shop, which was named after his defunct band, was popular with boys and girls in the area. Two years later, he moved the business to Middlesbrough, went more upmarket and soon the footfall reached a level where it made sense to expand and open a second shop. “The good thing about fashion is it’s all about change so I’m used to a shift in direction, it’s the nature of the business. What’s ‘in’ now wasn’t ‘in’ six months ago, so I’ve had to evolve or adapt constantly,” he says.

In 2002, Steve decided small shops didn’t cut it for him anymore so he made the bold move to take over a department store, or ‘large boutique’ as he prefers to

call it: “I had looked at it for six months and then figured a way to buy the freehold, which wasn’t easy. I needed to sell my house and car and the freehold leases on a few other shops that I had, and that proved enough.”

Once established, he fully realised the scale of the renovations required to make his own store, Psyche, a success: “It cost me £100,000 to remove the asbestos and then I had to do all the refurbishments, including new windows, floors, heating, lighting – everything had to be done.

“It’s a turn of the century building and the previous owners had been struggling for a decade and hadn’t spent a bean on it. I decided to project manage the repairs while trying to run the business, which was probably a case of biting off more than I could chew.”

The hard work paid off. Today, Psyche has over 60 employees with sales increasing 11 per cent to exceed £4.5 million for the last financial year, and pre-tax profits of more than 190 per cent, according to Steve. The 35,000 sq ft store offers up to 150 brands, including Armani, Paul Smith and Hugo Boss and, says Steve, its ladies wear department has the largest footwear and bag display outside of London.

BRICKS AND CLICKS

Given how hard the economic downturn has hit the north-east, the business is performing strongly. Other retailers in Middlesbrough's shopping district haven't proved to be as durable as customers have a lower discretionary spend and migrate to buying online.

"Lots of shops and restaurants around us have closed," explains Steve. "Buildings were knocked down too as the plan was to build a multi-storey car park but the project ran out of money, so now there's the worst of both worlds where half the houses are rubble and the rest are boarded up.

"When someone goes shopping, they want to go from shop to shop, have lunch in a restaurant, and now there's not enough on offer for customers. Bricks and mortar for retailers is under pressure everywhere – all the growth is coming from online."

Steve had the foresight to see what was happening in the sector and, after relaunching Psyche's website in 2011, he continues to invest in a digital offering that's become a key growth area for the business. It's not as large as he would like, but with 65 per cent of those online sales coming from outside of the local area and 20 per cent coming from overseas buyers, there is plenty to be happy about.

"You've got to be multichannel and you've got to be absolutely brilliant at it," he says. "That means collecting stock, buying, returning in store; all those things have to be seamless and linked and we've cracked that now."

For the next 12 months, Steve is targeting 300 per cent growth from online sales. In order to ensure he has the capacity, he's converted 5,000 sq ft of space in the store into a packing and picking room for orders: "We're going to advertise internationally and provide free, or at least cheaper, international delivery. Our bandwidth is going to be increased too, to cope with the additional orders – I'm

trying to future proof everything that we do so we're ready for growth and capitalising on opportunities."

It's a significant shift in strategy. Entrenched assumptions about the value of bricks and mortar and having a domestically-focused business are being revised by Steve. If a consumer-facing UK business is going to prosper, then the changes brought on by technology have to be embraced, along with the need to think and act internationally.

He says: "There's a massive amount of change underway. I think town centres are going to contract and go back to being more residential, and distance selling is

A TIME FOR INNOVATION

Retail in the UK is clearly under a huge amount of pressure. Low or zero growth in the economy has seen a drastic drop in the number of high-street shoppers, and in addition to this the traditional buying habits of consumers have been radically shaken-up by the digital revolution. It's a sector that really highlights how the services provided by banks needs to evolve and be focused on what a business needs, rather than following hopelessly out-of-touch processes which leave owner-managers frustrated.

Retailers need long-term solutions that have the potential to add significant value to their bottom line profits. The seasonality of cash flow has to be understood and not simply seen as a risk – the reality is that, in the UK, peaks in sales will occur in the high fashion industry around September / October as winter stocks typically arrive in August. So asking a retailer to pay for their winter stock before selling a single item puts an enormous amount of stress on a business.

With Psyche, Santander Corporate Banking identified this problem and Steve has seen the benefits – if you negotiate an early-payment discount with suppliers, it both improves relationships and gives an all-important boost to cash-flow. The challenging nature of the UK economy means that businesses have to look abroad and Santander's international reach – not least in Spain – can certainly assist when seeking to enter new markets.

For bricks and mortar retailers, the online and mobile offering is now a vital component in establishing a fresh multi-channel strategy. It's impressive that Steve has done just that, taking his ten year-old business, which fits very much into the mould of a traditional retailer, and successfully started to market to a diverse range of international customers.

Kevin Boyd

Divisional MD - Scotland
Northern Ireland & North East England
Santander

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going to be where it’s at. You have to take on new ideas and move forward otherwise, if you get stuck in your ways, you’ll be left behind,” says Steve.

CREATIVE THINKING

Financially, Steve has also had to reassess what is right for the business too. While he says Psyche is highly profitable and cash generative, he recognised that greater flexibility from his bank was needed and that simply funding growth out of cash-flow, as he had done for the past decade, wasn’t going to be appropriate in such a fluid environment.

“Our expansion has been slower and tougher because we’ve always reinvested – our previous bank didn’t want to expand my facilities, especially during the last few years, so funding has been a hurdle,” he says, noting that the decision was made to switch banks due to the lack of support.

“There was no relationship element and they never understood the seasonality of this business,” he continues. “It goes from cash positive at the end of year to negative again

come February. I needed a bank that could see the peaks and troughs that are natural to retail as opposed to ticking boxes.”

Other benefits of the new bank include a term loan, overdraft and early supplier payment on invoices. Of the latter, Steve says: “The bank pays my supplier within 48 hours as soon as the delivery note matches the invoice and we negotiate a trade discount too when the payment is early. It’s a fantastic arrangement because it’s straight on the bottom line and, because suppliers are always paid on time, it means that should they get any deals or have any unsold products, they’re going to ring me first.”

It’s a more agile and sophisticated arrangement for a business that is quickly maturing. This is also reflected by the internal transformation that Steve is driving within Psyche: giving staff shares in the company as it grows, outsourcing some operations, recruiting people who can adapt and be there for a new kind of customer, and generally putting some distance between himself and the daily running of the store.

The intention is to make “everything more corporate”. He says: “My job is going to change completely, or is changing as we speak because the emphasis is more on distance selling, not the face-to-face with customers. It’s about risk and overcoming fraud, making sure that everything works, that the [digital] platform is stable so the capacity is there. It’s much more technical.”

With America, Australia, Russia, Spain and France firmly in Steve’s sights, he is confident of tripling digital revenue

while also maintaining an in-store fashion experience that meets the expectations of 21st century consumers.

The hours may be long and there are plenty of barriers to overcome, but it seems Steve has found a way of life that meets his desire for flamboyance and a touch of glamour, and allows him to do things his own way. “If you love what you do, then you never work a day in your life, do you?” he says. ■

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This article forms part of a series of interviews with high growth businesses conducted in association with the [Santander Breakthrough](#) programme



Steve Cochrane
Managing Director
Psyche

Steve opened his first fashion boutique in 1982 in his early twenties. Ten years later he bought [Psyche](#), an independent, Middlesbrough-based high fashion retailer that has been identified by Vogue as one of the top 100 best shops outside of London.



Kevin Boyd
Divisional MD - Scotland,
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Kevin is a career banker and started in branch banking in Scotland in 1981. At Santander, Kevin is responsible for delivering significant investment into the business, commercial and corporate sectors, including increasing Santander’s lending commitments to SMEs.

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