

QVC parent buying HSN as shopping shifts online

July 6 2017, by Damian J. Troise

QVC's parent company is taking control of the Home Shopping Network for about \$2.6 billion in stock to create what they say will be the third-largest e-commerce company in the United States.

The companies long known as bases for home shopping on TV had been dealing with sluggish sales as Amazon dominates online. Both had long moved beyond cable channels and were trying to refashion themselves for younger shoppers buying more on their mobile phones.

"They're a little bit late to the dance of the online arena, but are catching up now," said Craig Johnson, president of Customer Growth Partners, a retail research consulting firm.

The combination will help give QVC and HSN the scale they need to take on more established online competitors. A key focus will have to be offering unique, exclusive products at a compelling value. Otherwise, he said, competitors including Amazon and Walmart will be tough to beat online.

Liberty Interactive Corp., which owns QVC already owned 38 percent of HSN. Integrating them will make them "stronger than they are individually and stronger yet as a stand-alone entity" in a "changing and difficult market," said Greg Maffei, Liberty's president and CEO.

Under former CEO Mindy Grossman, HSN had worked to build its e-commerce presence and transform itself into a lifestyle network. It

derives half of its revenue from e-commerce, featuring more than 50,000 products on its website along with broadcasting to more than 90 million households. Grossman departed for Weight Watchers earlier this year.

Executives on Thursday highlighted the potential for cost savings, complementary but not wholly overlapping customers, their strength in video and the larger reach the two will have. The companies also said they hope to use Zulily, which QVC bought in 2015, to drive younger customers to both brands.

Combined, they'll serve an estimated 23 million customers worldwide and ship more than 320 million packages every year, said Mike George, QVC's president and CEO. QVC is stronger in fashion and beauty, he said, while crediting HSN in areas like electronics, fitness and health.

He also noted the companies' social media presence and increasing e-commerce sales, with about \$7.5 billion, and \$4.7 billion in sales from mobile devices. In terms of video reach, the two will access more than 360 million TV homes globally.

Among retailers who operate in multiple categories, George said, the combined company will be No. 3 in North America in e-commerce, as well as in mobile-commerce in the U.S., and behind only Amazon and Walmart in dollar value of transactions.

The company said the deal will mean between \$75 million and \$110 million in cost savings over the next three to five years. An analysis from Citi had suggested cost savings of up to \$100 million a year. In the near term, though, it expects the cost savings to be small.

Liberty, based in Englewood, Colorado, will issue 53.4 million shares of QVC Series A common stock to HSN shareholders. It said Thursday

that's the equivalent of paying \$40.36 per share for HSN Inc. of St. Petersburg, Florida. Shares of HSN surged \$8.40, or 27 percent, to close at \$39.70.

The deal is expected to close in the fourth quarter.

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