



Traditional DIY retailers losing share

The big three in the UK market– B&Q, Wickes and Homebase – are currently having a hard time. They are losing out to the B2B/B2C hybrids and discounters. Overall only limited market growth is occurring. Analysis by Neil Munz-Jones of mdj2

We wrote in our 2016 UK report that growth forecasts were modest (+/- 2 per cent p.a.). 2017 and 2018 have come in below these forecasts. Political (with Brexit dominating the news) and economic uncertainty have made consumers cautious, despite low levels of unemployment and interest rates. GfK's consumer confidence index has an Overall Index of -14 and -39 index for the General Economic Situation over the next

twelve months. Housing transactions, a major driver of spending on DIY, remained flat in 2018.

The lack of definitive progress on Brexit at the time of writing (mid-March with the supposed EU-exit on March 29th) is having an impact on business sentiment, with many businesses (retailers and suppliers alike) delaying investment decisions until there is greater clarity on the UK's future relationship with the EU.

Traditional DIY formats losing out

Announcements from Kingfisher and Travis Perkins show the growth format. New branch openings since 2016 show no investment for both B&Q and Wickes, in contrast to the B2B/B2C hybrid formats Screwfix (100+ new in last 2 years) and Toolstation (80 new), with more openings in 2019. This investment is translating into sales with both brands taking an increased share of their group's UK sales. Travis Perkins 2018 results reported Wickes LFL sales growth at -4.4 per cent, in contrast to Toolstation's +11.4 per cent. Even though Screwfix LFLs have fallen to 'only' single digits (avg +4 per cent in last four quarters vs avg +10 per cent in previous four quarters), it consistently outperforms B&Q.

Both brands target selected customer segments ('white van' tradesman and 'serious DIYer'), allowing an overall range, price and service proposition that meets these customers' needs well. Convenience, using an 'omnichannel' approach, is at the

Currently in rebuilding mode: one of the Homebase stores that have been adapted recently.



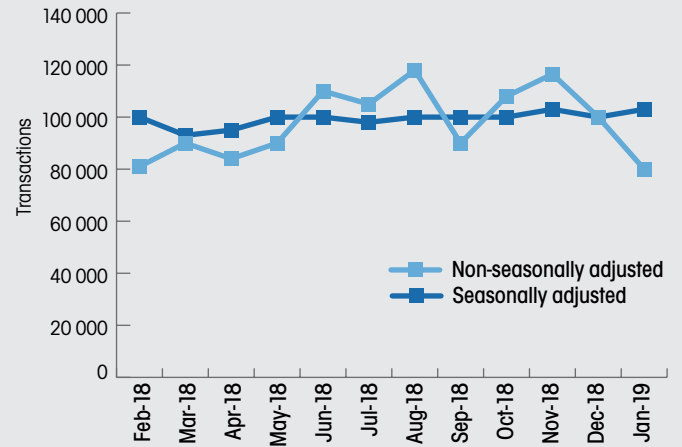
GfK Consumer Confidence Index

Measure	↑↔↓	Jan 2019	Dec 2018	Nov 2018	Jan 2018
Overall Index Score	↔	-14	-14	-13	-9
Personal Financial Situation over last 12 months	↑1	0	-1	-3	-1
Personal Financial Situation over next 12 months	↑2	1	-1	3	6
General Economic Situation over last 12 months	↓4	-35	-31	-29	-29
General Economic Situation over next 12 months	↓1	-39	-38	-32	-24
Major Purchase Index	↔	2	2	-3	1

Source: GfK/mj2

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Total UK residential transactions by month



Source: HM Revenue & Customs/mj2

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heart of this: Screwfix offers click & collect 'in as little as a minute' from 600+ branches and free next-day delivery for orders over GBP 50; Toolstation offers click & collect 'from 10 minutes' from 300+ branches and free next-day delivery on orders over GBP 10. Both businesses have a low-cost operating model, stocking standard ranges across small and low-rent branches. The trade-counter

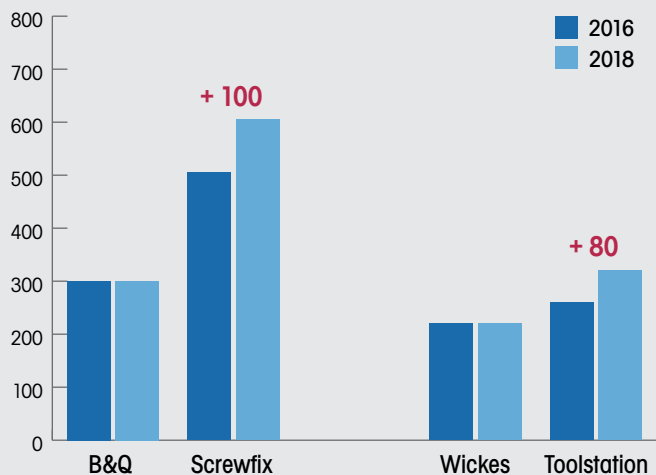
model also enables significant operational efficiencies.

Currently, Screwfix sales per store (GBP 2.7m) are much higher than Toolstation (GBP 1.1m) with Toolstation aiming to close the gap through initiatives such as adding an extra 4 000 products, especially recognised trade brands, and increasing 'extended ranges' available next day or via drop-ship.

Other retailers that are taking share are the discounters. B&M has 600+ stores, is adding 50+ stores p.a., as well as relocating to larger stores. Over 100 of the larger stores have a dedicated garden centre. Home Bargains has 500+ stores with a target of 1,000+ stores in the next 5 years. The broad spread of categories (food & drink, toys, clothing and electrical as well as DIY & gar-

B&Q/Screwfix vs. Wickes/Toolstation

Number of stores

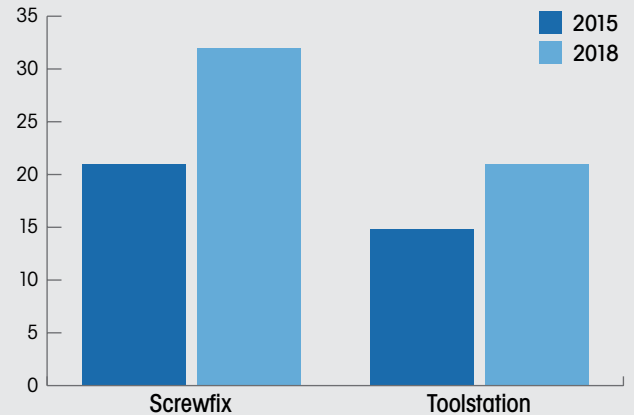


Source: mj2

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Screwfix vs. Toolstation

% of parent company's sales



Screwfix % of Kingfisher UK sales Feb. to Jan.
Toolstation % of Travis Perkins UK consumer sales; 2015 estimation

Source: mj2

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den), selling branded products at great prices resonates well with a broad range of consumers. Both brands are likely to continue to grow share, notwithstanding B&M's recent reported slower growth.

With garden growing faster than DIY, other 'winners' will be some garden centres. These tend to be smaller chains (Blue Diamond, Notcutts and Squires) that are investing in their stores to make them a genuine 'destination' for a day out of not just shopping (many sell extensive ranges of gifts, homewares, clothing and food, either via concessions or by themselves) but also eating & drinking.



The B2B/B2C hybrid format Toolstation is taking an increased share of Travis Perkins' UK sales.

The other 'winner' worth highlighting is Amazon. Stocking increasing numbers of products in DIY & tools (far more than the largest B&Q can offer), it is growing share (Global Data estimates this at over 2 per cent). For purchases of single items (as opposed to complex projects), its

range and ease of use including free next-day delivery for Prime customers have set it up well to continue to grow in the category.

The traditional chains struggle

Market leader B&Q is immersed in the One Kingfisher programme, although this may be called into question following Kingfisher's recent announcement that it has started the search for a new CEO. 44 per cent of products have been 'unified', leading to gains in gross margin percentage. So far this has not translated into higher overall sales, although sales of 'unified & unique' products are outperforming other products. B&Q sales have fallen by 8 per cent over 2 years (from fewer stores and, of greater concern for profitability, lower sales per store). Apart from a trial city store there has not been any store development. The key to its continued market leadership will be how it adapts its existing (medium and big box) store formats, in addition to continuing to develop unique (as opposed to just unified) ranges.

In 2018, Hilco bought Homebase for GBP 1 from Bunnings after its brief UK entry. As Bunnings had dismantled the Homebase operating model, Homebase is currently in stabilisation/rebuilding mode. It has developed a 'low cost reflow' (three stores complete with three more announced), that has been well received by customers. This looks to be taking it back towards its pre-Bunnings proposition (bigger ranges of kitchen & bathrooms, more homewares), ap-

pealing to a more female customer audience.

Until 2018 Wickes had done well, growing sales and stores, as well as investing in revamps supporting its growth in kitchens & bathrooms. Its focus on the faster-growing B2B trade sector also contributed to this outperformance. While sales fell by 2.5 per cent in 2018, the decline was mainly in the 1st half and it reported that kitchen & bathroom sales in the 2nd half were much stronger as a result of improved promotions and B&Q's decision to exit the installations business. Travis Perkins has said it is 'reviewing options to maximise profitability', with one option being a sale.

All of the 'big three' have much to do. Lessons from retail sectors such as electricals show that in a digital world with Amazon, traditional category specialists need to take steps to transform themselves to deliver a differentiated proposition. Think omnichannel, service, services, stores as experiential showrooms, aimed at a target group of profitable customers – and this will take investment. If they do not and we wind the clock forward, it is unlikely that there will be room in the market for three traditional DIY retailers in the medium term. ■

About the author



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