

# UK DIY

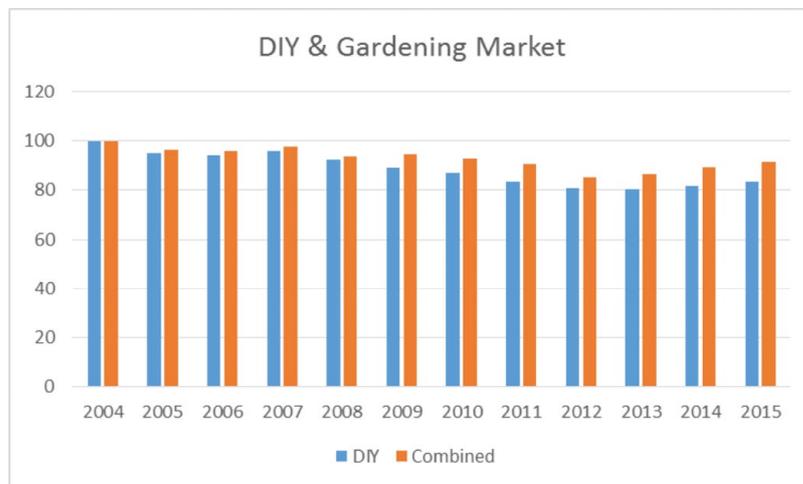
Big bets placed - who will win?



## Introduction

The UK DIY & Gardening market reached its peak (£12bn<sup>1</sup>) over ten years ago in 2004. It hit a low point of £10bn<sup>1</sup> in 2012 (15% below the 2004 peak) with most of the intervening years registering declines with the occasional year of modest growth. The market began to grow again in 2012-2013 (driven by growth in the Gardening market; the DIY market alone began to grow in 2013-2014). In 2015 the market had recovered to £11bn<sup>1</sup>, still some 10% below the peak in 2004.

### ...the UK market is growing but still well below the 2004 peak



Source: mdj2 team analysis based on Verdict data

These challenging market conditions have witnessed the exit from the market of a number of the main players, with MFI and Focus being the most notable. Despite these exits the remaining leading DIY retailers have not managed to deliver growth with B&Q's sales remaining below the 2004 high point of £4bn, Homebase hovering around £1.5bn and Wickes at £1bn+.

In contrast to the traditional DIY retailers, growth has been achieved by a number of emerging competitors, notably B&Q's sister company Screwfix which has more than doubled its market share over the last 5 years. Other 'winners' have been specialists such as Topps Tiles and Wren Kitchens, value-based retailers such as B&M and The Range that offer a broader range than just DIY and Gardening products. While hard to get accurate sales data for online retailers, from Amazon to the multitude of small category specialists, it is likely that these competitors have also been taking small amounts of market share on an individual basis.

Forecasts for the market are for continued modest growth over the next five years (+/- 2% p.a.), with Gardening forecast to outperform the DIY sector.

Against this backdrop of a slow recovery with increasing competition from non-traditional competitors, 2015-2016 has seen major announcements and significant investment from all three major DIY retailers. The most notable has been Bunnings acquisition of Homebase, alongside a £500m investment to rebrand Homebase stores to Bunnings over the next five years. Kingfisher has announced an £800m investment to develop ONE Kingfisher and Wickes has been working on its own transformation plan, investing in new stores, revamps, improved ranges and a better multi-channel proposition.

## Over £1bn+ to be invested by the 3 main players in next 3-5 years



**£500m investment:**  
Capex and working  
capital



**Est £375m investment:**  
Capex, ongoing &  
exceptional P&L  
Excludes BAU spending



**Est £200m investment:**  
New stores  
Revamps  
Range reviews

*Source: Company announcements and mdj2 team estimates*

So after a decade where the market has seen only gradual evolution, we believe that the next three to five years will see radical change that will impact on consumers, retailers and suppliers.

## Significant changes at the three major DIY retailers



It was no great secret that Home Retail Group had been open to offers for Homebase for some time, but the eventual acquisition by Bunnings of Australia did take many in the industry by surprise. It was accompanied by a bold acquisition integration plan investing £500 million, rebranding Homebase to Bunnings and introducing a Warehouse format that “combine(s) essential local elements with best of Bunnings to build [a] new business”<sup>2</sup> over the next three to five years.

The scale of change is significant as there are major differences between the customer propositions of Bunnings in Australia and Homebase. While Bunnings targets both Trade and DIY customers, Homebase primary target has been a more premium, female customer. This has resulted in a much greater emphasis on the Homewares and Showroom (Kitchen and Bathroom) categories and lesser emphasis on core DIY ranges than is evident at Bunnings.

Bunnings highly successful proposition in Australia and New Zealand is based on the three core tenets of Big Box retailing:

- Widest Range: “Everything you want under one roof”<sup>2</sup>
- “Everyday Lowest Prices”<sup>2</sup>
- Best Service<sup>2</sup>

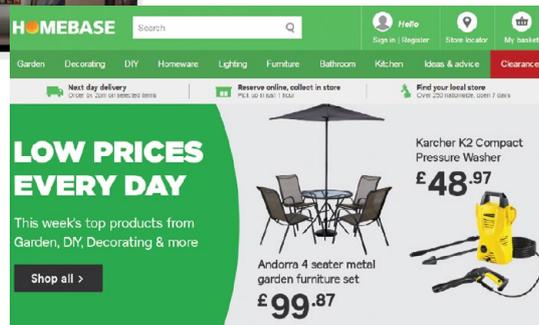
This is significantly different to Homebase. If anything, the Bunnings proposition has far more in common with B&Q (and even Wickes) than it does with Homebase. We believe that what is now the Homebase business will be unrecognisable in five years. The Bunnings management team have moved quickly with changes in pricing and new ranges already evident in stores.

## Bunnings already changing Homebase's approach



March 2016

May 2016



'Behind the scenes' changes will no doubt also be taking place as Bunnings focus on 'Retail basics'<sup>2</sup> in the first twelve months of ownership of Homebase. The other fundamental change is a belief in the scope for an expanded store network. Homebase has reduced its store estate from a peak of 342 in 2011 to 265 in 2016. In the acquisition announcement Wesfarmers say "Detailed analysis indicates significant potential for store network expansion under new Bunnings format"<sup>2</sup>.

The risks inherent in acquiring a business with such a different proposition are significant:

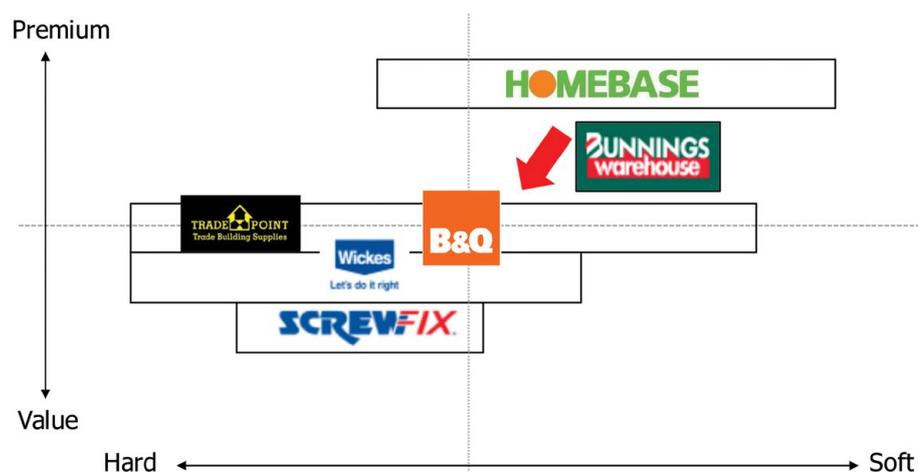
- Moving to an EDLP platform quickly is likely to impact on margins in the short to medium-term as loyal Homebase customers are used to a more promotionally-driven approach. Homebase generates a major part of its revenues from Showroom categories which are notoriously difficult to move to an EDLP approach when customers are used to constant "50% off" promotions.
- Attracting core DIY and Trade customers into the new Bunnings branded stores will take time. And they may not flock to Bunnings in the numbers that they do in their home market given the many existing competitors (not just B&Q and Wickes, but also Screwfix, Selco, Toolstation, as well as the Builders Merchants). Building brand awareness takes time. Just as Bunnings is a high-profile sponsor of Australia's popular Big Bash cricket tournament, Screwfix has recently started to sponsor the TV coverage of England's football matches, building its brand awareness in addition to the strong brand loyalty it generates.
- Given the different customer propositions, it is not surprising that the cultures of the two businesses are quite different as well. The rapid and 'across the board' changes to the senior management team at Homebase highlights the scale of change needed.

Another key difference between Bunnings in Australia and Homebase is the approach to eCommerce. Bunnings Australia has no transactional website/click & collect operation, prioritising the inspiration and information aspects of its digital offer. It remains to be seen what approach to Digital Bunnings will be take in the UK and whether 'click & collect' and/or a transactional site is one of the 'essential local elements' that Bunnings retains from Homebase, given that this is accepted custom and practice across all retail sectors in the UK, including DIY.

The commitment to invest £500m in capex and working capital is impressive and Wesfarmers is taking a long-term approach, only targeting that the acquisition will enhance earnings in the third year after acquisition.

We believe that the replacement of Homebase with Bunnings can only lead to a more competitive environment in the UK. Whereas there have been clear differences in the propositions of B&Q, Wickes and Homebase, the arrival of Bunnings will narrow these differences:

## Bunnings will compete more directly with B&Q and Wickes



Source: mdj2 team analysis

The key players have wasted no time in focusing on price as a weapon:

## Price competition will increase...and has already started

### Bunnings slashes prices in UK

THE AUSTRALIAN | MAY 10, 2016 12:05AM

The image is a composite of two promotional elements. On the left is a Homebase price tag for Dulux 2.5L Standard Coloured Emulsion, featuring a large '8' and '.47' to indicate a price of £8.47 each. On the right is a B&Q Club banner for Dulux paint. The banner includes the B&Q CLUB logo, navigation links for 'Shop' and 'Help & Advice', and a 'Your Club number: 635666 98 0559 7441'. The main promotion is for Dulux 2.5L standard coloured emulsion, with a 'Hurry, ends Monday' message. It lists '73 colours available. Available in matt and silk.' and shows two paint cans: 'Soft Peach' and 'Blue Babe'. A price tag shows a reduction from £16.47 to £8.47, with a 'Shop now >' button below.

While the Bunnings acquisition of Homebase has received the most publicity, B&Q and Wickes are also undergoing major changes that were started well before it was clear that Bunnings would be entering the UK market. It will be interesting to see if/how these strategies will be adapted in light of Bunnings arrival.



In January 2016, Group CEO Veronique Laury announced her plans for the next phase of Kingfisher's development with a 5 year transformation to create 'ONE' Kingfisher, based on three strategic pillars:

- Creating a unified, unique and leading offer
- Driving our digital capability
- Optimising our operational efficiency



Of these pillars 'Creating a unified, unique and leading offer' represents the biggest and most significant change to 'current' Kingfisher and has the potential to create real product differentiation for B&Q by creating an 'IKEA for DIY' across Europe. This approach is materially different to that of Bunnings/Homebase, with a much greater emphasis on own brands and unique products, which should be good news for consumers, offering them greater choice.

One of the main barriers to Kingfisher developing a more integrated offer has been the existence of autonomous business units by brand and by country. The current radical reorganisation, particularly of the commercial teams represents a bold but essential step in creating 'ONE' Kingfisher.

The plan carries significant executional risk, especially given Kingfisher's culture based on its historically decentralised operating model. Key will be an emphasis on innovation and product development and longer-term, more collaborative partnerships with its main branded and own brand suppliers. Kingfisher's own announcements on the early results have emphasised the rationalisation of skus and suppliers. This is likely to generate cost savings that underpin the £350m annual profit uplift (and/or enable it to compete robustly as price competition increases) announced by Kingfisher from the unified offer programme.

Getting the new commercial teams' ways of working and new roles and responsibilities established quickly so that the programme of category and range reviews can move beyond cost reduction will be key to unlocking the full potential of the opportunity. All of this needs to be done smoothly so that 'Business As Usual' trading and good relationships with existing suppliers are maintained. Another challenge will be to get the right balance between common and local ranges. Kingfisher has said that its customer needs across the countries it serves are 'more similar than different' underpinning the switch from ca 20% common / 80% local in its current offer to ca 80% common / 20% local in the future. IKEA has certainly provided a successful model of common ranges (and we note the presence of IKEA senior executives at Kingfisher now), it remains to be seen if such a high % of common ranges will work in diverse DIY categories, with a full Good/Better/Best offer.

Kingfisher has not yet said much about future developments for its Big Box stores and how the unified range may lead to a more common format across the UK, France, Poland and Russia. These Big Box stores are relatively expensive compared with lower cost models (e.g. of Wickes and Screwfix). B&Q is unique in UK DIY in that it has genuinely 'Big Box' stores - all its competitors have small/medium size stores. Whilst there has been a recognition that it is over spaced (60 store closures announced and being implemented), this does give the opportunity to create real 'destination' stores, in conjunction with the 'unique and leading offer'. Big Box can win overall (see Home Depot, Lowes, Bunnings) but must drive volume to gain operational efficiencies, especially in an ever more competitive environment.



## Let's do it right

Wickes have also, without great publicity, been working on a transformation of the business: "The strategy is to transform Wickes into the UK's strongest serious DIY retailer with the ambition of having a Wickes project in every home"<sup>3</sup>. In addition to investments in range extensions, store revamps and its online proposition as well as reinforcing its value price position, Wickes has identified 60 potential new locations, targeting 10-15 new stores p.a..



Following several years of static market share, these recent changes are bearing fruit: according to Verdict its market share is now over 10%, compared with 9% in 2011, with further increases forecast. In its latest full year results sales grew by 8% (5.3% on a like-for-like basis) and reported profits increased by 12%.



HOME & DIY

## Wickes full-year sales and profits rise as it 'gains market share'

3 MARCH, 2016 | BY NICOLA HARRISON



COMMENT

- › Profits increased 11.7% to £87m
- › Sales up 8% while like-for-likes increased 5.3%
- › Online investment made including launch of 60-minute click-and-collect

MOST POPULAR



## Non-traditional competitors growing share

So while competition amongst the mainstream DIY retailers is beginning to heat up, the market has also been witnessing for some years a rise in competition from non-traditional competitors. As DIY retailers such as Focus and Do It All have fallen by the wayside a plethora of different types of competitor have moved in. While their gains in market share may be small, when added together, the last few years have seen a shift in share away from the traditional DIY retailers.

## Market fragments as non-traditional competitors target parts of the DIY market



## The 'catalogue' retailers continue to grow and add outlets – Screwfix and Toolstation



The business that has seen the greatest increase in market share is Screwfix. Established as a catalogue retailer that then moved online, Screwfix started opening stores in 2005. Recognising that convenience and speed of access to products was essential for its trade customers, Screwfix has embarked on a massive roll out of stores and currently has 460+ with a target of at least 600.

### Kingfisher eyes 200 more Screwfix stores

© 15 September 2015 | Business



DIY retailer Kingfisher, which owns B&Q and Screwfix, says it could open another 200 Screwfix stores in the UK.

These stores are small ('standard' stores have 800ft<sup>2</sup> trade counter and a 5,000ft<sup>2</sup> stock-room) and benefit from a low cost model (low rent and staff costs as a % of sales). Screwfix has become a truly 'Omni-Channel' (defined as channel 'agnostic') retailer, supported by a strong mobile offer (100% sales growth from this channel in 2015) and its world-class 'Click and Collect in 5 minutes' offer (52% sales growth in 2015). In addition to a strong position in terms of price/value, Screwfix has an excellent reputation for service, recording strong customer feedback scores.

Screwfix financial performance has been impressive for some years, recording double-digit sales growth in each of the last four years, and in excess of 20% in each of the last two years. Sales in 2010 were just below £500m and have more than doubled to over £1bn in 2015 with continued strong growth in early 2016. Its market share according to Verdict has more than doubled to over 5%. It now represents 20% of Kingfisher's UK sales and a recent analyst report by Redburn<sup>4</sup> valued it at £1.8bn for the UK business (i.e. no value included for European expansion).

Kingfisher now views Screwfix as its primary expansion format, having launched in Germany in 2014. Its low cost model looks like a format that could easily be exported but it remains to be seen how quickly professional/trade customers (who tend to be more brand loyal than DIY consumers) can be converted to the Screwfix brand and format.

We should also mention Toolstation that was established by the original founders of Screwfix. Since being acquired by Travis Perkins, Toolstation has been adding stores and now has over 230 branches. While its sales per store remains well below that of Screwfix, it has grown overall sales to over £200m, with further sales growth likely. A recent report by Consumer Group Which recently rated Toolstation and Screwfix Number 1 and 2 for Customer Satisfaction in the DIY and Decorating category.

## The rise of the value and discount retailers

More famous in the grocery sector with the expansion of Aldi and Lidl, the 'discounters' and 'value' (including 'fixed price') retailers focused on the General Merchandise sector have also been growing their share of the DIY and Gardening market.

While early gains were made by Wilko, the fixed price retailers, notably Poundland, have delivered strong growth in recent years. Poundland grew its store estate from 263 in 2010 to 850 in 2016 and has an overall target of 1,300. Despite only offering products at the £1 price point, it has introduced credible if small private label ranges of DIY products in tools, hardware and other DIY categories. Poundland is currently trialling a multi-price format store 'Poundland & More', based on the stores it already operates in Ireland and Spain that will allow it to extend its ranges in the DIY categories.

B&M has seen the most rapid growth in recent years, following its takeover by US private equity firm Clayton, Rice Dubilier in 2012. Store numbers increased from 300+ in 2012 to 500+ in 2016. B&M have stated a target of at least 850 stores for the UK. In April 2016 alone B&M opened 7 stores. With DIY and Garden categories featuring prominently in B&M's offer, it has more than doubled its share of the DIY market since 2011, albeit from a low base.

## B&M is expanding rapidly...

B&M tops £2bn turnover for the first time



The other significant player growing share in this sector is The Range. The Range (for 'Home, Leisure & Garden') is not a discounter but operates in the 'value' segment and describes itself as the 'poor man's John Lewis' (Chris Dawson, Founder). It is not exclusively in the DIY & Garden sector (offering categories such as Arts & Crafts and Homewares) but will have grown its share of the market via its strong store expansion programme in recent years. Store numbers have grown from 90 in 2014 to over 120 in 2016 with a plan to have over 150.

All the signs are that this sector will continue to grow, especially given the announced store expansion plans. And given their strong price and value credentials they will have (and continue to) exerted price pressure on the more established players in the sector.

## The category specialists

While not a new phenomenon the category specialists continue to provide strong competition. As some have struggled and exited the market (MFI) or restructured into smaller operators (Floors 2 Go), others have grown and become key players in their respective categories.

Topps Tiles has been trading for many years but has seen significant growth in recent years as it has implemented its strategy of 'out specialising the specialists', growing market share to achieve its self-imposed target of £1 in every £3 spent in the tiling market (up from 22% in 2007), despite only a modest increase in store numbers.

A relatively new competitor in the Showroom category is Wren. Founded in 2009 and a sister company to eBuyer, Wren started out focused on the Kitchens category and has now added Bathrooms to its offer as well. It currently has 54 Kitchen Showrooms and 10 Bathroom Showrooms and is in expansion mode. Sales are estimated at £250m currently.

## Specialist Garden Centres continue to thrive and invest

Whilst the major DIY retailers have significant share of the garden market, specialist Garden Centres continue to invest and develop their businesses. Wyevale, the largest Garden Centre chain, has undertaken an acquisition drive over the last three years growing the chain from 129 to 151 centres, whilst Tesco-owned Dobbies is currently up for sale with Wyevale widely expected to acquire the 35-centre chain. Elsewhere privately owned chains such as Blue Diamond, Notcutts and Hilliers are all investing in refurbishment programmes. Investment in restaurants have proved a major footfall and profit driver over recent years and in many larger centres they now account for around 25% of sales.

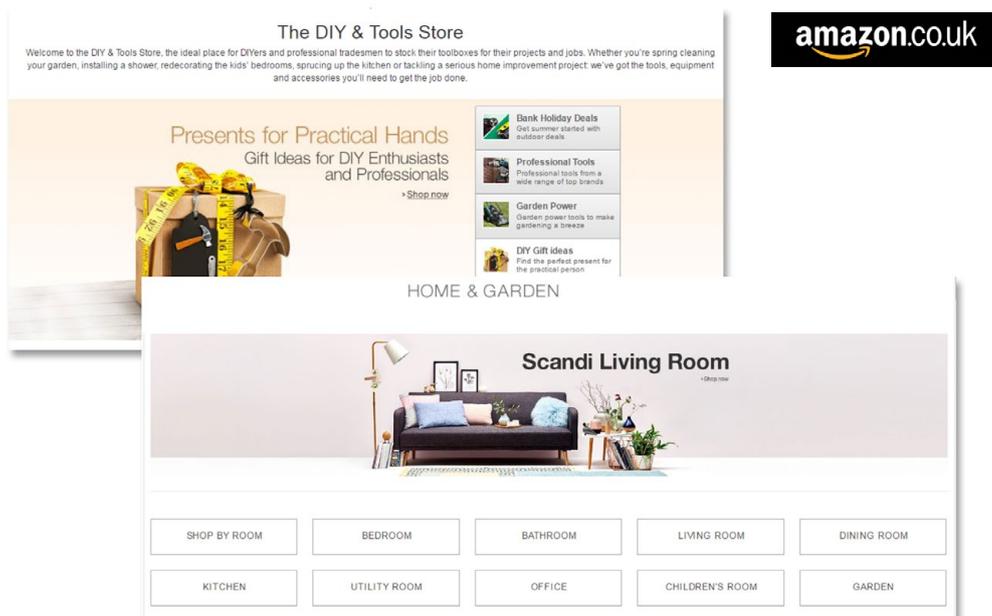
Taking into account the stated aims of the big DIY retailers, garden centres will continue to promote their specialist credentials as a point of difference, as well as the restaurants which have turned many centres into a true destination visit.

# The impact of the Digital revolution

## Online – still relatively small but a growing threat

Relative to other retail sectors such as Clothing and Electricals, the penetration of the online channel in the UK DIY market remains relatively low. Despite this the channel has grown in importance. Verdict<sup>5</sup> report that penetration grew from 5.8% in 2011 to 7.8% in 2015.

In addition to all the traditional retailers improving their online offers, there are numerous competitors that have an online only offer. Amazon is the best-known of these competitors and is expanding its offer in the DIY and Garden sector on a daily basis. A review in May 2016 shows “DIY and Tools”, “Home & Garden” and “Premium Garden” ‘stores’, with 379,642 skus available to purchase directly from Amazon.co.uk (i.e. excluding Amazon Marketplace sellers) in the DIY and Tools sector alone. What is also striking is the rate of growth in skus. Of the ca 380,000 skus, 12,781 (i.e. similar to the entire ‘stocked’ range in a Wickes or Screwfix branch!) were introduced in the last 90 days.



Sales estimates for Amazon are hard to access and there may be limits to its growth potential in a category where advice is paramount and much of the market is driven by multi-product projects. But its breadth of range, generally strong pricing and reputation for excellent customer service are making it the first port of call for increasing numbers of consumers, particularly when making single product purchases (as opposed to more complex multi-product projects).

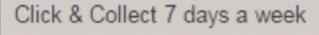
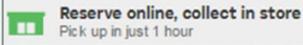
And it is not just the online giants like Amazon and eBay that the traditional DIY retailers need to contend with. There are numerous smaller online retailers that tend to focus on specific product categories (e.g. [powertoolsdirect.com](http://powertoolsdirect.com), [taps.co.uk](http://taps.co.uk), [wallpaperdirect.com](http://wallpaperdirect.com)) and sell directly or on other websites such as Amazon Marketplace, which list 51 different online shops amongst its 'Top Sellers' in DIY & Tools. Their category focus and low price/cost structure enable them to compete (in a small way) with the much larger, more established retailers.

So while still a relatively small channel today, online represents another increasing threat to the traditional retailers. Verdict<sup>5</sup> forecasts that online penetration will grow to 10.4% (ca £300m+ additional sales) by 2020. As they continue to improve their online propositions, a healthy share of this will go to the traditional players, but their store-centric business models will limit their ability to compete for every £ spent purely online, especially as the digitally-savvy younger consumers age and start to spend more on DIY.

## Omni - Channel is a key battleground

The ability to offer consumers a choice of fulfilment options (collect in store, collect at a convenient third party location or home delivery) has become a key battleground. This is an area where retailers with portfolios of stores can have an advantage. Consumers and tradesmen alike have become used to having an ever-increasing array of options combining speed and convenience. In the early 2000's Screwfix had a fantastic reputation with its customers for its ability to deliver next day for orders placed before 5 p.m.. Nowadays this service would not be viewed as anything particularly special as Screwfix now offers click and collect within 5 minutes. This is available from any of its 460+ stores across the UK, putting a store within a short drive of the vast majority of its customers.

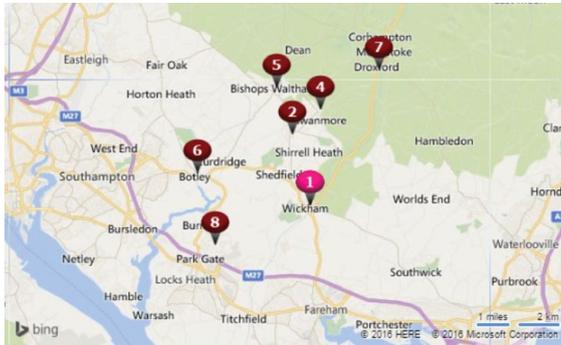
In our White Paper in 2013 "From eCommerce to Multi-Channel to Omni-Channel: the retail journey in the Home Improvement sector" we compared the click & collect propositions of the major DIY retailers. A similar comparison in 2016 shows the extent to which this has become the accepted norm in the UK DIY sector:

Retailer	Proposition in 2013	Proposition in 2016
	Reserve & Collect next day	
	Reserve & Collect in 3 hours (not all products)	
	No facility offered	
	Collect from 3 p.m. next day	
	Collect in 5 minutes	

Source: mdj2 team analysis – current websites and mdj2's 2013 White Paper on Omni-Channel in the DIY sector

While Screwfix has maintained its already world class 5 minute offer, all the others have made improvements to their offer, with Wickes making the largest change: no click and collect in 2013 to a 1 hour service today.

Of course the online retailers are not standing still either, with Amazon leveraging the Collect+ network to offer highly localised collection points across the country:

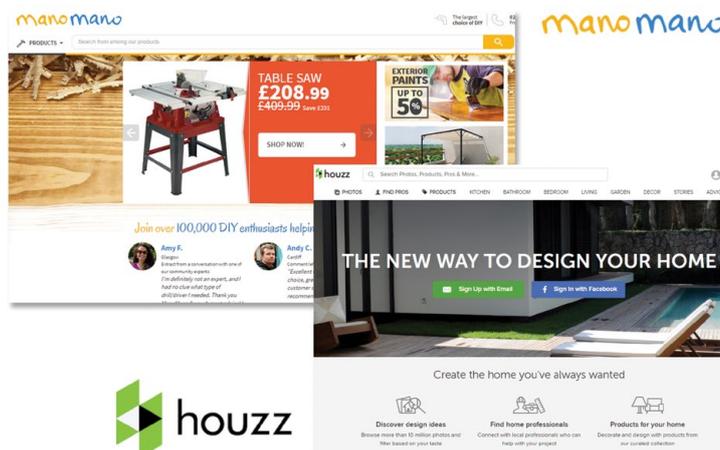


**Search for an Amazon Pickup Location near you**

Amazon Pickup Locations allow you to collect your parcels at a time and place that's convenient for you. At Pass My Parcel locations you can take advantage of Evening Pickup and Express Pickup for £4.99 (available to Prime members at no additional cost).

The choice of home/site delivery options is improving as well. For example Screwfix now delivers on both Saturdays and Sundays (only Saturdays in 2013). B&Q now offer Next Day Home Delivery for orders placed up to 7 p.m. (up to 5 p.m. in 2013) and deliveries for orders over £50 are now Free of Charge (£5 in 2013). These low/free of charge delivery offers are expensive to run and go some way to explaining why retailers are developing their Click & Collect offers. Getting consumers to collect themselves is both lower cost and, in many cases, leads to additional sales.

To conclude this section on the Digital revolution, it is worth mentioning new business models that are enabled by the digital revolution. The trend for 'online platforms' (in addition to Amazon Marketplace), based on connecting buyers and sellers is impacting the DIY market as well. Examples include houzz.co.uk ('Discover Design Ideas', 'Find Home Professionals' and 'Products for your home') and Marketplace manomano.co.uk (offering 150,000 products and recently arrived from France courtesy of a €13m fundraising from investors).

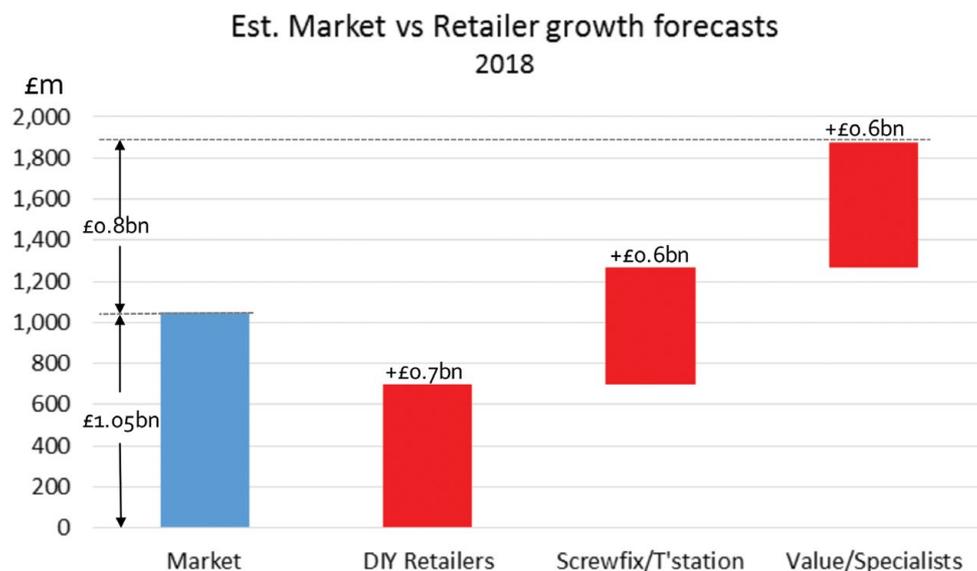


## Not enough market growth to go round

With all these developments and investment in the sector we thought it would be interesting to see how much sales growth is implied by everybody's announced expansion plans and then compare this with estimates of market growth. We have looked ahead to 2018 i.e. a 3 year time horizon. Is there enough market growth to meet all these targets?

- Using consensus forecasts of 2-2.5% p.a. applied to GfK's £16bn market size implies that the market will grow by £1.05bn in 2018.
- We estimate that the three traditional DIY retailers will add £0.7bn of sales, based on market growth plus stated store expansion/reduction plans as well as known, additional self-help initiatives.
- We estimate that Screwfix and Toolstation will add £0.55bn of sales, based on market growth plus stated store expansion plans as well as extrapolating above market like-for-like sales growth trends.
- We estimate that 'Others' (B&M, The Range and Wren) will add £0.6bn of sales, based on market growth plus stated store expansion plans as well as extrapolating above market like-for-like sales growth trends.

## Not everyone will win!



Source: mdj2 team analysis based on Verdict, GfK data and retailer announcements

These plans add up to in excess of £1.8bn and this excludes a number of retailers that are likely to be growing in the sector (e.g. Amazon, Poundland, Topps Tiles) but whose sales growth is less easy to quantify.

# Conclusions

## Not every retailer is going to win

Unless the market grows ca 75% faster than forecast not everybody will achieve their growth aspirations. It is probable that retailer plans (especially at Bunnings and the discounters) will stimulate growth above the natural market but we believe that the intensifying price competition will result in this additional growth coming in volume rather than value terms.

## Price competition is intensifying and will become less of a differentiator

The arrival of Bunnings, the continuing rise of Screwfix and the Value/Discount retailers allied with B&Q and Wickes commitment to price competitiveness will lead to greater competition on price. While the end customer will benefit, margins for both retailers and suppliers will be further squeezed. Cost reduction and efficiency programmes (with B&Q well placed, courtesy of the 'ONE' Kingfisher plan) will be essential to provide a 'war chest' to fund reduced prices. Not only this, but we believe it will become harder to use price as a differentiator, as competitive prices (potentially with an EDLP philosophy) become a 'non-negotiable' factor.

## Product range and service will be key to winning propositions

This does not necessarily mean the largest product range...just look at the number of skus offered by Amazon. The key is to target a selection of complementary customer segments (e.g. as Wickes and Screwfix do by targeting both 'light' Trade and 'serious' DIY) and then to ensure the range meets their needs. It is hard to compete with Amazon's choice but then too much choice can be bewildering, unless you know exactly what you require, and therefore can make purchasing more time-consuming. Price competition should not necessarily lead to an excessive focus on 'cheap' products, with retailers looking to maximise the opportunity to offer higher margin Best/Premium products. Selective use of Own Brands (as opposed to an unknown Private Label) to create differentiation and allow some leeway in price comparisons will also be a key part of product range decisions.

The growth of online has resulted in some improvements in recent years in instore service but it remains an area where DIY retailers can improve (remember when B&Q Warehouse had Plumbing and Electrical 'experts' in store?). It will be interesting to watch as Bunnings bring their service model to the UK. DIY (with its many complex projects) lends itself well to propositions built on strong service. And 'service' extends to 'services' that are offered in store, online or across channels such as Click & Collect.

## The right channel strategy and leveraging selected retailer-supplier partnerships will be essential

For suppliers, channel strategy becomes more important. A more selective approach to retail partners rather than trying to please all may be more productive for all but the very largest branded suppliers.

Channel strategy for retailers requires a strategic approach as well. A well-executed 'Omni-Channel' strategy such as Screwfix delivers is both appealing to customers and likely to lead to sales growth. But getting there, especially for retailers with expensive store estates and legacy systems based on a physical store-model will be expensive and may not lead to the desired return on investment. Identifying the right proposition that puts the emphasis on stores, supported by online and click & collect services may be a better solution for retailers that started out with stores.

Similarly, online retailers need to choose carefully if and how to invest in physical interactions with their customers.

Finally, we believe that retailers and suppliers need to move beyond the traditional win/lose relationships, based on regular short-term negotiations and move to more genuine, two-way partnerships that leverage each other's strengths. In a world where (courtesy of the internet) the power has shifted to the end consumer/tradesman, it is hard for either party to do everything well on their own. Opportunities to work together are endless with examples including shared customer / market insight, collaborative marketing, improving the in-store experience, extended range opportunities and flexible supply chains.

## About the authors

Established in 2005 mdj2 associates ([www.mdj2.co.uk](http://www.mdj2.co.uk)) is a consultancy that works with clients in the retail and consumer sectors. Our overall proposition is 'we help you get more done', bringing expertise and focus to a broad range of strategic and improvement projects. All the mdj2 team have had lengthy careers at retailers and suppliers within the international Home Improvement and Garden Centre sectors, including senior roles at Kingfisher and B&Q. We have completed Home Improvement sector consultancy assignments for retailers, suppliers and investors in the UK, Germany, Belgium, Russia, Ireland and the Middle East. One of our Directors has published a case study "You Can Do It When You B&Q It" in conjunction with Manchester Business School. We have published White Papers on Multi-Channel retailing in the Home Improvement Sector (2013) and the UK Garden Centre Sector (2014) that are available to download for free from our website.

**Please contact us at [info@mdj2.co.uk](mailto:info@mdj2.co.uk) if you are interested in discussing these findings in more detail.**

Notes:

<sup>1</sup> Historical market sizes and forecasts based on Verdict data

<sup>2</sup> Bunnings/Wesfarmers announcements

<sup>3</sup> Wickes/Travis Perkins announcements

<sup>4</sup> Redburn: "The Power of One" March, 2016

<sup>5</sup> Verdict: DIY & Gardening 2016

## The team

We are consultants who have held senior roles at leading retailers and manufacturers, and we have also run our own businesses:

### Neil Munz-Jones



Neil founded mdj2 in 2005 and has delivered change programmes for retailers and other sectors in the UK and internationally. Prior to this, he held director level positions at Kingfisher, B&Q and Caradon. His expertise covers Strategy, Commercial, Organisation Design, Programme and Change Management. He has a BA (Hons) from Oxford and an MBA from INSEAD, and is fluent in French with good German and Spanish.

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### Steve Goodburn



Steve joined mdj2 in 2009 following over 30 years in senior roles at B&Q and Woolworths. His expertise covers Operations, Customer Service, Supply Chain, Commercial, Systems, Programme and Change Management. He has led change programmes in the UK and internationally in the retail sector. He has an MBA in Retailing and Wholesaling and is a PRINCE2 practitioner.

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### Andy Newman

Andy joined mdj2 in 2011. He has over 20 years experience in the Home Improvement, Garden and General Merchandise sectors having held senior roles at B&Q and Woolworths and spent 5 years completing a business turnaround of his own Garden Centre before joining us. His expertise covers Business Development, Proposition and Format Development and Programme Management.

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### Clive Daley

Clive joined mdj2 in 2016 following over 25 years in retail and supply to retail. He has held senior commercial roles at Dixons, B&Q and Superdrug. He was also the UK Managing Director for a major Chinese manufacturer. His expertise covers Commercial, Negotiation, Purchasing, Revenue Optimisation, Business Development and he has a key insight into doing business with China and the rest of Asia.

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## Contact Us

We'd love to hear from you and to have the opportunity to discuss how we could 'help you get more done'.

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