



The bar has been raised

UK & European DIY trends

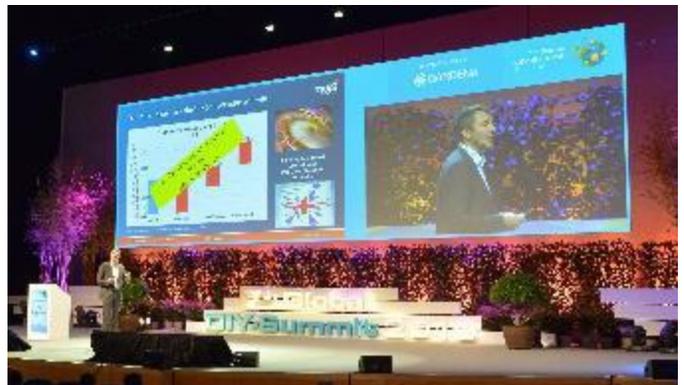
Dublin, June 2019

In June 2019, mdj2 Director Neil Munz-Jones was invited to give a keynote talk at the Global DIY Summit (<https://diysummit.org/>) in Dublin, the world's leading event for retailers and manufacturers from the Home Improvement industry with 1,000+ industry leaders from over 50 countries attending.

Established in 2005, **mdj2** help retailers and suppliers to deliver their strategic, change and improvement projects. Every member of the team has experience in senior roles at leading retailers and suppliers. We have a wide network of Associates with expertise across all main business functions. We are very proud of our track record of repeat business and work from recommendation.

This is a copy of Neil's talk for those that could not attend or who wanted a reminder of the content.

In addition to visiting stores in a number of countries we interviewed senior executives who generously shared their views and contributed – we thank them for their time and insights.



In 2016 we presented at the Global DIY Summit in Stockholm on developments in the UK market in light of the major investments being made by the key players including Bunnings purchase of Homebase, the ONE Kingfisher programme and the branch rollout at Screwfix and Toolstation.

Our conclusion back then: Not everyone will win!

Category	Forecast (2018)
Market	£1.05bn
DIY Retailers	£2.0bn
Screwfix/T'station	£1.2bn
Value/Specialists	£0.6bn

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

UK DIY: Big bets placed – who will win?
2016 Global DIY Summit, Stockholm

The UK DIY market is undergoing massive change!

mdj2 associates – experts trusted to deliver | Neil Munz-Jones | www.mdj2.co.uk

Our conclusion back in 2016 was what we called the £800m challenge. The total of retailer growth plans from new stores and other initiatives was almost double the forecasts for the growth in the market. The headline was ‘not everyone will win’. So, we thought it would be interesting to review what has happened since to see what we could learn.

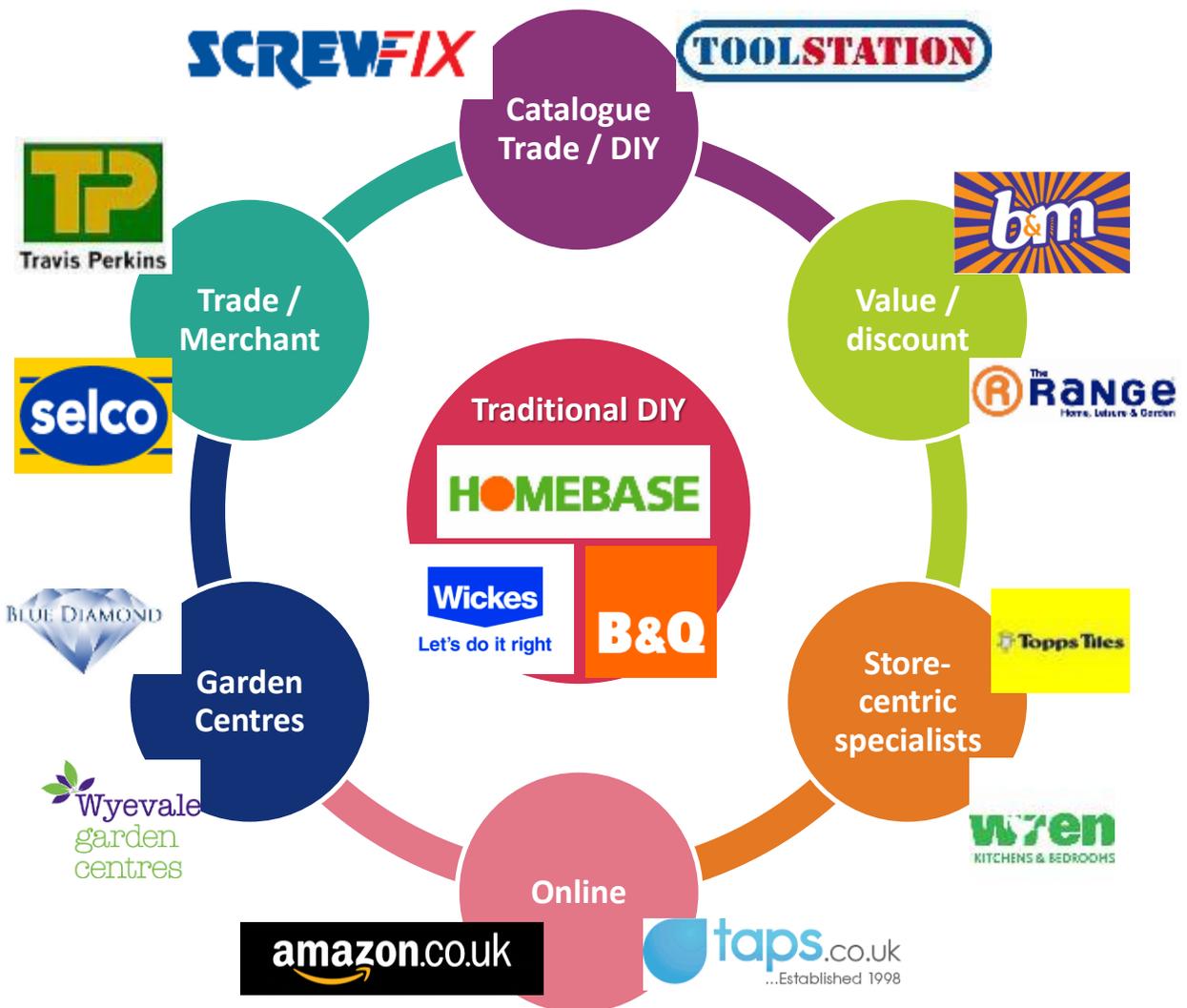


In the UK at least, retailers have been going through what can best be described as a ‘perfect storm’.



The market has been tough with limited growth and DIY losing out to the gradual trend away from DIY to DFM (Do it For Me)

And long gone are the days when it was just DIY retailers competing with each other. Whichever product category you look at there are more and more competitors taking market share.



In the past, when faced with such a tough market the typical response was to cut costs. But retailers are facing significant cost increases from investments in digital as well as rising property and staff costs:

B&Q to see £60m investment in multichannel retailing

Retailers to be slapped with another £186m business rates rise in April

By Ben Stevens - October 17, 2018

The change that has been most fundamental has been the shift in power from retailers to the end user, whether a DIY'er or a Pro.



This quote from Lord Rose sums it up when he said at The World Retail Congress: “The customer is no longer king...the customer is now the master of the universe” and the new buzzword we are hearing is ‘frictionless shopping’ where customers get what they want, when they want it, and with minimum effort.

Despite this perfect storm there are some ‘winners’ and we think you can put them into 4 distinct groups.

**The B2B / B2C ‘catalogue’
retailers**




Screwfix and Toolstation are well-known examples of retailers that are winning.

The ‘discounters’




Discounters such as B&M and The Range are flourishing.

**The category specialists e.g.
Garden Centres**




The third group are some, but certainly not all, of the category specialists, such as independent Garden Centre chains like Blue Diamond and Nottcutts.

The online platforms




And the fourth group unsurprisingly are the online platforms such as Amazon and Manomano.

We tried to identify some common themes about what these winners are doing. We think the key words relating to their success factors are:

- 'Connect',
 - 'Evolve'
 - 'Choose'

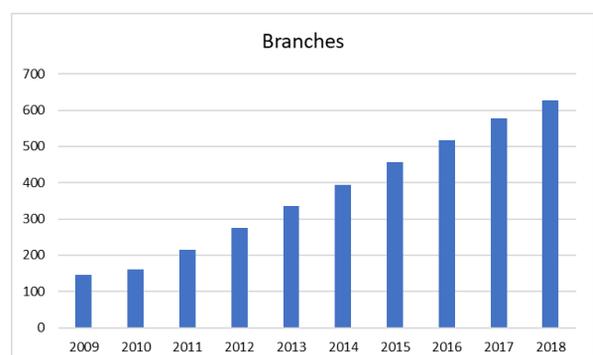
Before returning to each of these themes, here are three examples of the winning formats:

SCREWFIX

Screwfix sales growth has been impressive, averaging 15% growth per annum over the last 10 years, with sales now at £1.7bn. Its focus on the faster-growing B2B market has helped but much of this growth has come from the way the business has developed over the last 10 years.

Screwfix is clear on who its target customers are with a focus on the small-jobbing builder. Screwfix has developed a proposition that allows it to excel in meeting these customers' needs where time equals money.

It has rolled out branches right across the country, so that most tradesmen are within a 10-minute drive of a Screwfix branch. And it combines this with a great digital offer. Click & Collect within one minute remains world class and a great example of how the bar has been raised. Backed up by a tight core range of 11,000 products and strong IT systems giving it a single view of the customer and a single view of stock, Screwfix provides its trade customers with certainty and reliability.



And just in case you think this is just a UK phenomenon we have seen Screwfix's competitor **Toolstation** rolling out branches in The Netherlands, France and Belgium.

News | Expansion abroad

Back

Toolstation growing in the Netherlands and France



Toolstation is Travis Perkins' small format and trade distribution line.

Toolstation, the small format and trade distribution line of the British Travis Perkins group, is expanding outside the UK. In France, the first three branches within range of the new distribution centre in Lyon opened in the fourth quarter of 2017. Toolstation is already selling online in Belgium and Germany, with orders being shipped from the Netherlands.

The British company is expanding fast in the Netherlands, where like-for-like growth exceeded 30 per cent in 2017, driven by the online and stationary business. The number of branches grew to 20 and is to be doubled in 2018.

Our second example of a winning format is the discounter **B&M**. In 2010 B&M had under 200 stores and sales of just over £500m. Last year, UK sales were £2.8bn from over 600 stores. As with Screwfix it is very clear on who its target customer is, the value-conscious shopper.



So B&M deliver their proposition through a combination of products from the big brand names at great prices while rolling out increasing numbers of stores. And remember the comment in the perfect storm about rising costs? Delivering a seamless omni-channel experience is expensive. So, it is interesting that (apart from a couple of non-core product categories) B&M does not offer an eCommerce solution.



And the roll out of the **Action** discount chain across several countries in Europe highlights that, as with the Screwfix example, this is not just a UK phenomenon.

///ACTION



Our final example of a winning concept is the **Blue Diamond** chain of Garden Centres. Sales have grown by over 50% over the last 5 years with comparable Like For Like sales averaging over 6% each year.



As with the other examples it is clear who Blue Diamond's target customers are – the older customer that is both time and cash rich. A few years back Blue Diamond set out a clear vision to offer “inspirational retailing with a point of difference” and if you have visited their stores you can see how.

The centres are a true destination offering great ranges of gardening products in an inspirational setting. But that is only half the story. The restaurant is a focal point for the store and the core ranges of garden products are complemented with ranges of gift items, clothing and food & drink. As a result, these centres become a day out for these time and cash rich customers.

There are some great examples beyond the UK with The **De Bosrand** Garden Centres in The Netherlands a wonderful example of a destination garden centre.



So building on these examples of winning concepts we also wanted to look more generally about how retailers are responding to these seismic changes. We will look at 4 aspects:

- **Store formats,**
- **Service & services**
- **Partnerships**
- **Engaging with customers**

Store Formats:

Big Box

The rapid growth in the number of Big Box DIY stores may have slowed down but it is interesting to see what the newest Big Box stores are like. And the striking thing is that they stick with the key principles of the earliest Big Box stores to deliver a combination of great range, price and service to enable the store to be a true destination...and not just for DIYers. Attracting the Pro customer as well is often a key part of the economics of a successful Big Box store.



Inspiration: Bouwhof, NL



Get advice: Plan It, BE



Place to meet: IKEA UK



Attract the Pro + DIY : Hornbach NL

Smaller format

The trend towards urban living is seeing a growth in a variety of different small store formats: from traditional 'Compact' stores that Maxeda are rolling out, to IKEA's City Centre stores and their new Kitchen and Bedroom Planning Studios, to Leroy Merlin's 'L'appart' concept and B&Q's brand new Good Home concept.

Examples of small format concepts:



IKEA: Central Paris



Leroy Merlin L'appart': Paris



Service and services:

We think that service and services are a key battleground with the bar constantly being raised. Click & Collect services from the UK DIY retailers continue to improve with 1 hour becoming 'standard' and for Screwfix and Toolstation collection times are measured in minutes. And all the major DIY retailers across the rest of Europe are moving in a similar direction with Click & Collect in 2 hours becoming the norm.

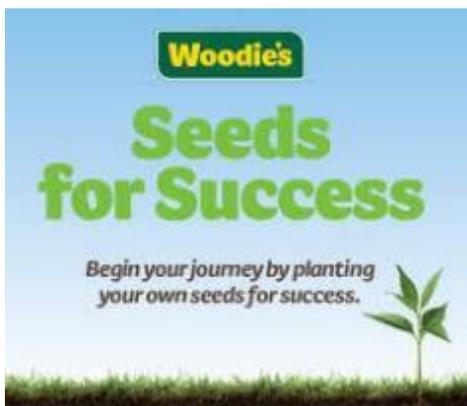
Retailer	Click & Collect in <u>2019</u>
	1 hour Click + Collect - Restrictions apply
	Reserve & collect Pick up in store within 3 hours
	<u>FREE Click & Collect</u> in 1 hour to 230 stores
	CLICK & COLLECT from 10 mins at 300+ UK branches
	CLICK & COLLECT in as little as 1 minute

The challenge for retailers is that offering an efficient omni-channel service is becoming what customers expect. They are not ways to differentiate yourself from your competitors. Which is where we think good old-fashioned face to face service can still play a big role.

Service and services continued:

This quote from Air BnB is interesting: “The difference between a 5* and a 4* customer review is always down to some element of human interaction”.

A DIY example is **Woodies** in Ireland. Woodies has invested significantly in employee development and satisfaction, recognising that great service is a way to build strong relationships with customers. This is not exactly a new concept but to be able to do it in a way that is authentic and consistent across stores is not easy. Store colleagues and customers easily see through gimmicks. So Woodies progress in the % of employees that rate Woodies as a ‘great place to work’ shows it is not some short-term fad. And this investment in people has been part of Woodies recent success, growing profit from €2m in 2014 to €17m in 2018.



In addition to service, services are more and more on the agenda. A good example here is **Leroy Merlin** where services such as delivery, tool hire, after sales, installations and a handyman service are all prominently communicated to customers. While these services are not cheap to offer and not always a profit generator they are becoming ever more important ways to generate customer loyalty in a world where customers have so many choices of where to buy.



Partnering:

This quote from Walmart International’s CEO is very revealing: “10 years ago it would have been unheard of for us to do partnerships...[since then] Walmart Int’l has set itself up to... become one of the best partners in the world for businesses.” So a business the size of Walmart is seeing the need to use partners as a strategic development, realising that it cannot hope to delight its customers by doing everything itself.

A good DIY example is **Homebase** in the UK. Homebase is operating under very tight financial constraints following its purchase last year by Hilco. And one way that the business has realised that it can offer its customers ‘more with less’ is by partnering. So, it has signed in store-concessions with retailers such as Tapi carpets and Ponden Home Interiors to be able to offer more products in categories that are related to DIY but are not core for Homebase.

HOME & DIY

Homebase and Tapi launch concession partnership

By Nicola Harrison, Grace Bowden | 6 December 2018



Engaging Customers:

As all customers become more digitally savvy and Millennials become Home Owners the ways to engage with your customers are changing. **Influencers** become an important way to reach customers, and there are the not so **new channels** such as Houzz and Pinterest and even new currencies for transacting.



Engaging Customers continued:

Building **online communities** of customers as Screwfix has done with its Forums for Builders, Plumbers and Electricians help to generate more customer loyalty. And let's not forget **Smart Home** and the increasing relevance of voice and phone-activated ways to communicate.



In our final example we are seeing a trend where customers increasingly want to deal with **businesses that have a purpose** and a set of values that they believe in.

The best example in our market is **IKEA** who right from its earliest days had a strong belief in sustainability. Its recent trial to lease rather than buy furniture and its 'revive and relove' workshops for customers' old products are great examples of how it connects well with customers. A second way to engage customers is by developing a real sense of community, as IKEA is doing in its latest Big Box store in London. If we were doing a global review, Bunnings in Australia is another great example of how a retailer is an integral part of the local communities it serves.

Sustainability

Enter Ikea. Last month the retailer revealed plans to lease furniture, starting with office furniture such as desks and chairs to business customers in Switzerland, as part of a wider company strategy to create a fully circular business by 2030.

Communities

As an event space

the roof terrace becomes the major neighbourhood spot, where knowledge and expertise can be shared in a community spirit.

We love the sun (and the wind too)

To help power the building we have installed solar panels covering 75% of the roof. They will also help us to produce more energy than we use by 2020. So try shopping at IKEA stores 100% investing in renewable energy too.

People + Planet
www.ikea.co.uk



Find the value in waste

Whether you fix it, personalise it or turn it into something new, you'll learn to love your IKEA product for longer, and when it's at the end of its life you can recycle it, and enjoy knowing it'll be turned into something new!

Bring along your IKEA product to our revive & re-love workshop and learn how to give it a whole new lease of life or if you're just tired of looking at it, personalise it and fall in love with it all over again!



So, what are the learnings from all this? I mentioned earlier 3 key words:

- **Connect**
 - **Evolve**
 - **Choose**

Connect – with your customers:

When we say ‘connect’ we are talking about making a connection with your customers.

We hear a lot about businesses saying they put the customer at the heart of their business but do they really mean it?



Because the connection needs to be an emotional one and you can't make that sort of connection without really meaning it, so that your whole organisation is lined up to deliver.

So, it has to be about more than just selling them products – Amazon is rather good at that already.

It is about making yourself useful to your customers, becoming an important partner in their journey.

If your **target is the DIY customer**, the emotional connection consumers have with their homes provides rich opportunities for both retailers and brands to be a part of making that home a place where they can relax, feel safe, be a family or entertain.

Or, if your **target is the Pro customer**, who is purchasing products on a daily basis, there is great scope to connect by becoming a time-saving, reliable, convenient and friendly partner that allows them to get on with what they do best.

Evolve – Your proposition:

When we say ‘Evolve’ we mean constantly evolving your customer proposition in a world where the bar is being raised.

While all the talk is about digital, over 80% of all retail sales still involve physical stores. So, for the foreseeable future at least, stores have a key role to play, whether as a convenient pick up point, a place to get advice and inspiration or, as in the garden centre example, a great place for a day out.



But as we have seen the best stores have evolved from uninspiring places crammed with poorly-merchandised products, often with poor availability and with inconsistent service.

A nice quote I read was “Amazon is not killing off retail, it is killing off mediocre retail.”

So you have to give customers a good reason to get into their cars and come and visit your stores.

Not only have the physical and service aspects of winning stores improved but some of them choose to blend the best of digital and physical in the quest to offer this ‘frictionless shopping’.

And you need to keep raising the bar not just year in year out but month in month out.

Choose – Make strategic choices:

Our 3rd point is “Choose” by which we mean make strategic choices.

Now more than ever we think it is better to do a few things brilliantly rather than do a lot of things averagely. And that requires making some choices. Starting with who your priority customers are.



Each of the 3 examples of winners we showed are very clear on who their most important customers are. Of course they are happy to welcome other types of customer but by being clear on their most important ones, helps them make decisions on what to invest in and just as critically what not to invest in. So that they can design an all-round proposition of products, price and service that makes that emotional connection. And then build the organisational capability to deliver consistent execution.

So they also need to be able to articulate what it is they won't do. And this could either be not at all – as some of the discounters have shown by not investing in omni-channel. Or deliver via a partner who can give it more focus, resource and expertise. This of course provides many opportunities for retailers, suppliers and other service providers to collaborate to great effect.

So, the bar has been raised and it won't stop here. How are **YOU** connecting, evolving and choosing?

See next page for more about **mdj2**

About us

Established in 2005 **mdj2** is a consultancy that works with clients in the retail, consumer and B2B sectors. Our overall proposition is ‘we help you get more done’, bringing expertise and focus to a broad range of strategic, change and improvement projects. All the mdj2 team have had lengthy careers at retailers and suppliers. We have a wide network of Associates with expertise across all main business functions.

We are very proud of our track record of repeat business and work from recommendation and we work with clients in the UK and internationally. Our retail, consumer and B2B clients include:



We have completed Home Improvement sector consultancy projects for retailers, suppliers and investors in the UK, Germany, Holland, Belgium, Russia, Ireland and the Middle East. We have published White Papers on the UK DIY market “Big Bets Placed – Who Is Winning?” (2016), 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 if you are interested in discussing these findings in more detail. We’d love to hear from you.