Grow your own success

Challenges and opportunities for the UK Garden Centre sector

Introduction

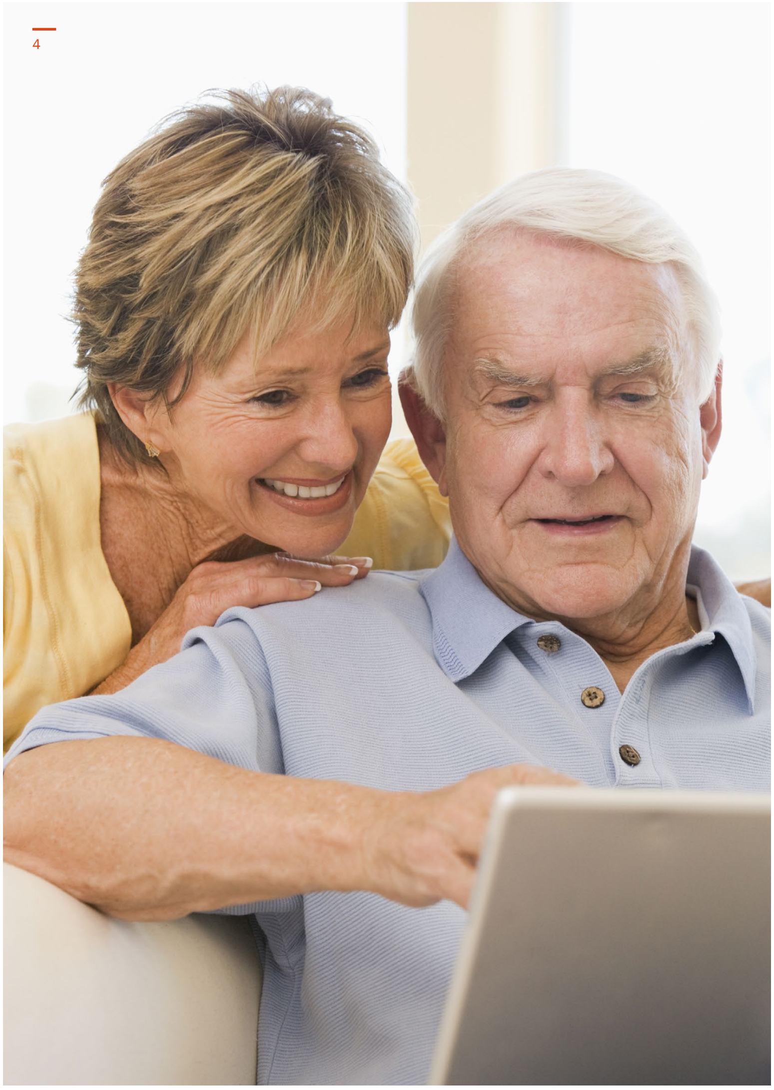
As we enter 2014 most retailers hope it signals the start of a brighter future, and the end of several tough years. This is especially true for the UK Garden Centre market which has not only had to cope with the harshest economic background for probably 50 years but also what appear to be more extreme weather patterns over the last few years. In 2013 alone a prolonged cold snap in early spring dented hopes of a strong start to the season, whilst the warmest summer for several years then helped to return a smile to the faces of hard-pressed garden retailers.

Garden centres hold a unique place in the hearts of many British shoppers, and have a bright future because of it. However we also believe that in many cases they are at risk of not evolving quickly enough to meet changing customer habits. This paper lays out some of the key challenges and opportunities facing Garden Centre businesses, whether one centre or a 30-strong chain.

A flurry of recent acquisitions and investments suggests a market re-gaining confidence and preparing itself to push ahead. Many will be hoping that recent evidence of a slowly-improving economy means that 2014 marks the start of a return to growth, but we believe strong businesses must make their own luck, and there has never been a more important time for Garden Centres to re-evaluate and make plans to grab the opportunities that lie ahead.

Since the emergence of garden centres in the early 1960's they have been providing Britain's green-fingered folk with their gardening needs. Originally nurseries and plant centres as a general rule, they have evolved into the garden centres we know today, with many broadening their offer beyond gardening into areas such as gifting, clothing, farmshops and most prominently restaurants and coffee shops. With the vast majority of centres still under private ownership, the sector has great entrepreneurial strength, however a 'whirlwind of change' in retail over the last 5 years, driven by the advances of technology, mean that the shopping habits of customers of all ages are changing dramatically and the sector must respond.

Here's to a great 2014 season and beyond!



Chapter One:

Let's start with the customer... they are changing

Over the last 2-3 years we have witnessed clear changes in the way customers behave, driven by a complex mix of social and technological influences. We predict that customer behaviour will continue to evolve, presenting the garden centre sector with opportunities and threats in equal measure.

Technology is changing the way we live

So who is the typical garden centre customer? We would argue that the best retail businesses have come to realise that the traditional 'pigeon holes' used to identify customer groups no longer apply. Whilst many might suggest that the stereo-typical garden centre customer is 55+, retired with no mortgage and driving a Honda Jazz, we would challenge that these days they are just as likely to be doing their weekly food shop online with Sainsburys, browsing clothes at M&S.com and collecting them in their local store, 'Skyping' their grandchildren on a Sunday and catching up on the episode of Eastenders that they missed on iPlayer!

Equally apparent is that tomorrow's garden centre core customer, who might be in their 40's today, is often living very differently to how their parents did. The evidence is clear - technology is changing the way we live our lives across all age groups.

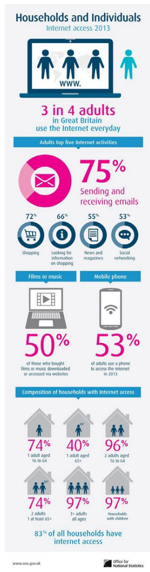
A clear example of this is that Ofcom report[1*] that 51% of adults now own a smartphone, whilst 24% own a tablet device (more than doubling in the last year). Predictions suggest we can only expect usage of both to grow significantly. From a retailer's perspective, according to a recent ONS report[2**] 72% of adults (that's 35 million of us) now buy goods or services online, with 67% of 55-64yr olds claiming to use a computer daily. Excluding food, online's share of total sales is heading towards 20%, a number that cannot be ignored!

72%

of adults buy goods or services online**

As another example of the increasing use of technology by older consumers, in an article published in the Telegraph back in Jan 2013, research firm Mintel were quoted as saying that one in three over-55's now own an e-reader.

The impact on garden centres has been less profound so far than for example in fashion retailing, but the sector must start to embrace these social changes as they present opportunities and threats in equal measure. With customers increasingly



using the web to research products and retailers from home, is your business putting its best foot forward?

Retirement is further away

Another emerging story from the financial crisis of the last few years is that we are likely to have to work longer before we can retire. Figures published by the Department for Work and Pensions in July 2013 show that the average retirement age for women is now running at 63, an increase of 6 months in the last year alone. For men the current retirement age is currently 64 years and 7 months, and this is also on the increase. Changes to state pension entitlement already announced by the Government mean that by 2018 the state pension age for women will have risen to 65 years, compared to 61 years and 5 months currently. By 2020 this will have increased to 66 years for both men and women. This poses a very real challenge for garden centres as people potentially have less free time to garden ...or make the weekly trip to the garden centre for lunch with friends.

On a more positive note we are an ageing population, living longer, and what better way to stay fit and healthy than to garden! According to the Office for National Statistics there will be 327 pensioners for every 1000 working-age adults by 2033, a rise of 20% compared to today. Put another way males born in 2010-2012 can expect to live 82.8yrs, nearly 7 years more than those born just 10 years ago whose life expectancy was 76yrs.

327
the number of pensioners for every 1000 working-age adults by 2033

Therefore a key customer segment for Garden Centres will grow as a proportion of the total population and in absolute numbers, but will be older and, when retired, probably poorer than today's pensioners due to the phasing out of the historically generous pension schemes in the private and public sectors.

Morrisons actively promote school gardening

We need to nurture the next generation of gardeners

Another hot topic within the garden industry is where will tomorrow's gardeners 'get the bug'. A recent survey by OnePoll for Homebase of 1000 16-25 year olds showed a reluctance to consider gardening as a career choice. Two-thirds (64 per cent) of 16-25 year olds are put off by a job that exposes them to the elements in case they got cold or wet, while one in three (33 per cent) simply don't want to get dirty.

All is not lost though, as a vast number of young people already have experience in the great outdoors, with almost half (47 per cent) having planted vegetables or flowers, and one in four (25 per cent) having looked after their own vegetable patch, allotment or garden.

Over the past few years the trend towards family gardening and 'grow-your-own' has gathered momentum, and there is increasing recognition within schools that gardening can form a part of a rich curriculum. The RHS has actively developed its 'Campaign for School Gardening' specifically to support schools in this area.

It's interesting to see that one of the most successful retail campaigns promoting school gardening has come from outside of the garden sector, Morrisons 'Let's Grow' programme is now in its sixth year, claiming to have given away over £14 million worth of gardening equipment to 26,500 schools. The scheme encourages schools to collect vouchers which can then be exchanged for gardening equipment, and has its own dedicated website which includes resources for schools and children to use throughout the year.

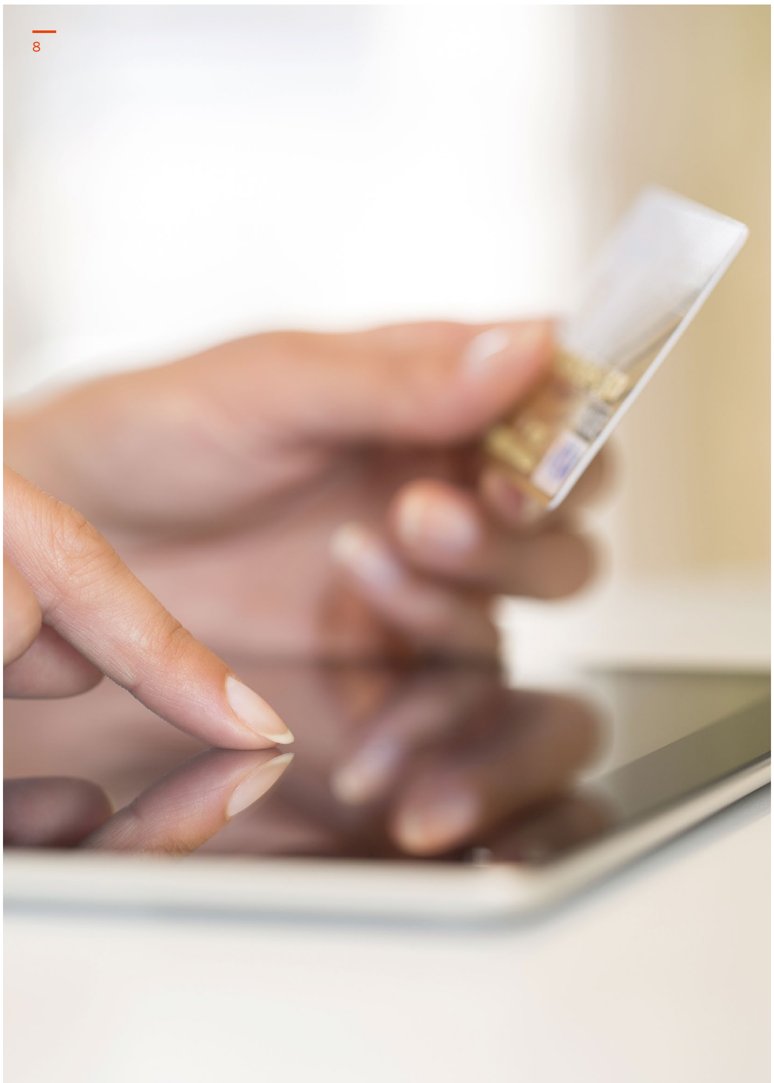
£14 million
the value of gardening equipment given to 26,500 schools by Morrisons

Up and down the country garden centres are working hard with children in their local schools and communities, for example Klondyke's 'Gardens for Schools' initiative, Dobbies 'Here We Grow' or Squire's Teddington Lock design competition, but there is still plenty of opportunity. For example in a world where technology plays a major part in education, and most 4 year olds know how to use an iPad, tomorrow's gardeners will increasingly learn and take inspiration from a screen, so garden centres should consider how they can tap in to this.

CONCLUSIONS

There are many social and technological influences changing the way that customers live their lives, and garden centres must evolve to ensure they offer customers a great experience relevant to that changing environment of the future. Below are just a few of the changes garden centres of the future need to consider:

- How to adapt the offer to an ageing customer?
  - Accessibility
  - Help and advice
  - Product range opportunities
  - 'Do It For Me' services
- How to make the most of technology as customer adoption increases and expectation rises?
  - Purchase online/home delivery/ collect in store etc
  - Online advice
  - Social Media
- If the core customer has less disposable income in the future?
  - Value proposition and range
  - Promotional stance
  - Activities to drive loyalty
- How to promote gardening to the customers of the future?
  - Engaging with schools
  - Gardening classes
  - Online – interactive childrens pages, help and advice



Chapter Two:

Omni-channel is here to stay

Rapidly changing customer behaviour has led to a revolution in the way retailers deliver their customer proposition.

You cannot pick up a newspaper or trade magazine today without reading about the latest omni-channel developments. Whether it's Argos' tie-up with Ebay, Amazon's latest adventures or Asda's 'Click & Collect' trial at 6 London Underground stations, retailers everywhere are investing significant time and money in evolving their offer to meet the needs of a constantly changing consumer. If not already, this will become a key challenge for Garden Centres. In truth they have been slow to embrace the online revolution, but that is something that will need to change if they are to continue to prosper.

Even if the online/omni-channel customer experience in the Garden Centre sector is limited, customers' expectations are being shaped by other retail sectors such as grocery, electricals and fashion. As a result they expect an ever greater variety of ways to browse, buy, receive and even return products. It is this evolution towards an omni-channel world (which we define as "the ability to use multiple channels in a single transaction") that is creating even greater change (and opportunity) than the initial move to create a website as a separate channel.

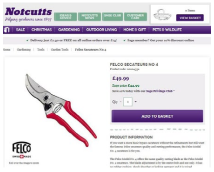
As a result we firmly believe that the physical garden centre will continue to play a vital role in the future, but also that because omni-channel is here to stay, the sector needs to embrace rather than resist it, or run the risk of giving away additional sales and profit to generalist retailers.

Transactional websites

Let's start with online. A recent report by IMRG and Cap Gemini forecast that consumers would spend over £10bn with online retailers last December. Excluding the grocery sector, online sales now account for just under 20% of total sales. So without a fully-transactional website Garden Centres are risking missing out on a significant part of the market. And note Amazon's recent push into developing extensive ranges of garden products (over 31,000 products available direct from Amazon.co.uk) as evidence that there is an online market for garden products.

Most garden centre chains will lay claim to having made significant investment in their website over the last couple of years. However during Christmas 2013 the fact remained that as a customer I could only buy a garden spade and secateurs online from one of the top 6 specialist groups - Notcutts. In fact leading independents garden centres are better placed, with for example Bents, Longacres and Hayes all rising to the challenge! I could however buy the very same gift from Tesco, Argos, Amazon and Robert Dyas, to name just a few, as well as the vast array of online-only retailers.

Reserve & Collect is an established service for major retailers including Argos and Tesco



Notcutts are making progress with their online offer

Let's buy Dad a spade and some secateurs online this Christmas!

	Spade	Secateurs	Click & Collect?
Garden Centre Group	N	N	Plants
Dobbies	N	Y	N
Klondyke	N	N	N
Notcutts	Y	Y	N
Blue Diamond	N	N	N
Squires	N	N	N
Bents	Y	Y	Y
Hayes Garden World	Y	Y	N
Longacres	Y	Y	Y
B&Q	Y	Y	Y
Homebase	Y	Y	Y
Waitrose Garden	Y	Y	N
Tesco	Y	Y	Y
Argos	Y	Y	Y
Robert Dyas	Y	Y	N
Amazon	Y	Y	N

Christmas 2013 highlighted the real risk of the sector handing sales to generalists

A transactional website provides the opportunity to offer extended ranges beyond those stocked in your stores. From a chain's perspective this could enable your smallest store to offer the same range as larger centres, or in key seasonal categories the ability to trade extended ranges without significant stock-holding. The approach can work across any product category but the benefits are obvious in key areas such as Garden Furniture, Barbecues, Tools and equipment. Suppliers are working with retailers in many sectors to improve their support capability, enabling the retailer to offer significantly more range than they could ever economically stock. Generalist retailers, including supermarkets, are already using this to good effect on garden products, especially during peak season, and to date garden centres are offering little in defence.

Screwfix offers 22,000 products on its website, whilst only 11,000 are stocked in a typical store. In the USA The Home Depot offers 500,000 products online vs a traditional range of 35,000 in store

The main grocers use their websites as a means to offer extended ranges as well as ranging products on their website that are not available during stores out of season e.g. gardening:

- Tesco.com - Total Garden sku's = 1,239
- Sainsburys.co.uk - Total Garden sku's 310
- Asda.com Direct - Total Garden sku's 207

Source: Websites 5/12/13

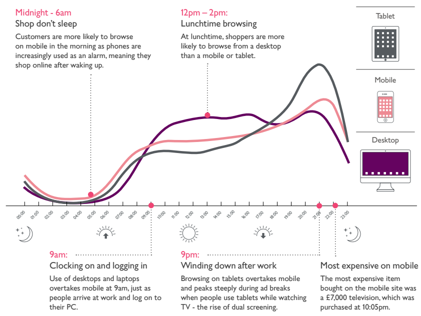
The move from eCommerce to 'omni-channel' retailing

So what does the latest catchphrase 'omni-channel' really mean? It's about allowing customers to shop with you when and how they want, offering convenience. Customers increasingly use multiple channels when they shop, perhaps researching products online from the comfort of their sofa, before heading to a store to touch and feel the product, then ordering when they get home and have had time to reflect. Alternatively they may prefer the convenience of browsing and ordering at home, but collecting the goods in store. Omni-channel is about giving customers the freedom to use this combination of channels, in a seamless way.

Your website as a source of ideas, information and inspiration

So even if customers do not order anything from your website, its role as a source of ideas, inspiration and information should not be underestimated. With easy access to information via the web, customers increasingly research and compare products online today, with the ability to digest detailed product information as well as read reviews and ratings from people who have already purchased the products. Whilst many will also use the web to compare prices, we believe one of the primary reasons consumers browse online is convenience – they get to look at products at a time that suits them... which more often than not is when your shops are closed! As just one example of this, John

Britain's shopping habits uncovered



Source: How we shop, live and look (The John Lewis Retail Report 2013)

Lewis's 'How We Shop...' report published in October, provided a fascinating insight into the behaviour of their customers, demonstrating that traffic to their website, through various devices, typically peaks between 8pm-10pm daily.

Providing gardening advice and inspiration is an area where garden centres have made strong progress online. It represents a great way of building brand loyalty with customers, offering seasonal and project advice aimed at encouraging gardeners to keep themselves busy! With the grow-your-own trend continuing, and a resurgence in cooking programmes, it's also interesting to see some, including Dobbies, adding a section on seasonal recipes.

Under the heading of ideas, advice and information, there is so much that retailers can do with their websites. Using a good understanding of what matters most for their customers, here are the key areas to consider:

- **Basic information:** Centre address, map, directions, opening hours and contact details.

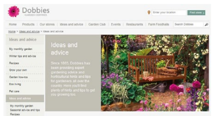
- **Product information:** The website offers a great opportunity to provide more product information than is possible in store. Traditionally there has been limited additional information but retailers are now focussed on adding 'richer content' to inform consumers and aid product selection. The teams supplying this information need a good understanding of how shoppers search and select for products as this will vary by category. The key is how to present this information so that it is easily comparable (some even offer a 'product comparison' facility).

- **Ratings & reviews:** retailers are increasingly offering a product 'rating and review' facility as this is now seen as an invaluable tool used by shoppers to aid their purchase decisions. It is also a great source of free customer feedback.

- **Ideas & inspiration:** Here the opportunities to engage consumers, build brand loyalty and encourage them to visit your centres are limitless.

Customers are using technology in garden centres today

Businesses also need to understand how customers are using technology whilst shopping instore. Whether it's using a screen provided by the retailer or using their smartphone, it is a reality that, on higher-ticket purchases especially, increasing numbers of customers have started to embark on what has become known as 'showrooming' – where they visit a store to 'touch and feel' a product before going online to order. Across the industry retailers initially struggled to get their heads around this – after all why would I encourage customers to visit my



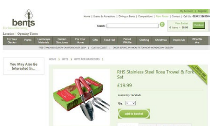
Customers increasingly go online for tips and advice 'showroom', with all its fixed costs, only to then go online and buy the product cheaper from someone else? Today however, leading retailers have learnt to adapt to this new behaviour, for example using personal service or the convenience of 'Click & Collect' as differentiators.

Omni-channel services: ever more flexible collection and delivery options

It has been interesting to see how online retailing has changed over the past few years. In its infancy the aim was all about delivering products direct to the customer's home. However the desire for convenience has driven the emergence of 'Click & Collect' where many customers no longer want the perceived hassle of goods being delivered to home, but instead prefer to collect from their local store at a time that suits them. Retailers have been happy to embrace this trend, as often the costs of delivering to store are lower than home, coupled with the added bonus that you still get a customer visit to the store. As time has gone this development has gained pace as 'Click & Collect' has proved a big hit with customers for products already stocked in a store. Here customers seem to appreciate the security of knowing the product is in stock and reserved for them, thus saving any wasted trips. The convenience of ordering whilst sat on the sofa, or in the office, and collecting from the store has clearly struck a chord with time-pressed customers. As examples of its growing popularity M&S recently reported that 55% of all online sales are now collected in store, whilst at John Lewis the figure is 40%. As retailers continue to refine their 'Click & Collect' offer, speed is becoming the priority. Typically orders can be collected within a few hours if the item is stocked in store, however leading omni-channel retailers are investing to reduce that time dramatically. Examples of this are Argos who now offer immediate collection, whilst Screwfix promise collection within 5 minutes. More typically Homebase collection is quoted as 3 hours, whilst at B&Q it is the following day.

"The flexibility of Click & Collect, where an item is ordered online and collected from a shop of a customer's choice at a time that works for them, has proved a revelation. Online shopping via this method now accounts for 40 per cent of purchases made on johnlewis.com, an increase on last year when that figure was 27 per cent. We've pioneered this approach and customers have responded, showing that the combination of 'bricks & clicks' is where the future of retail lies"

John Lewis 'How We Shop' report Oct 2013



Bents have introduced Click & Collect on selected products

Email marketing, loyalty clubs and social media

E-mail marketing is another tool which many garden centres have been actively using, often under the branding of loyalty clubs which have been have been prominent in the sector for many years. Today loyalty clubs offer a great database for e-mail marketing, however in most cases it can only prompt a visit in store with limited options to purchase online.

The Garden Centre Group's Gardening Club has over 2 million members

Social media has had a profound impact on society over the past few years, and it is slowly becoming more prevalent within the gardening community. Andy McIndoe at Hilliers was one of the first garden retailers to spot the trend, setting up each of their garden centres with their own twitter account. Whilst follower numbers are relatively low, e.g. @HillierRomsey has 297, it is an interesting way of engaging with local customers. The Garden Centre Group's @ Gardeningclub counts over 4,100 followers. As further evidence of gardeners engaging with technology, The RHS now has 49,500 followers, whilst The Daily Telegraphs' @ TeleGardening has 16,000. TV gardeners are also getting in on the act with for example Alan Titchmarsh (9,400 followers), Chris Beardshaw (8,400) and Toby Buckland (5,400) all using Twitter to air their views, whilst Monty Don has his own Tumblr blog (montydon.tumblr.com). The above is not there to imply that every garden centre should jump onto Twitter at the next available opportunity, it simply re-iterates the fact that gardeners are taking to social media and so Garden Centres should consider it as potential channel for communicating with customers and building loyalty.

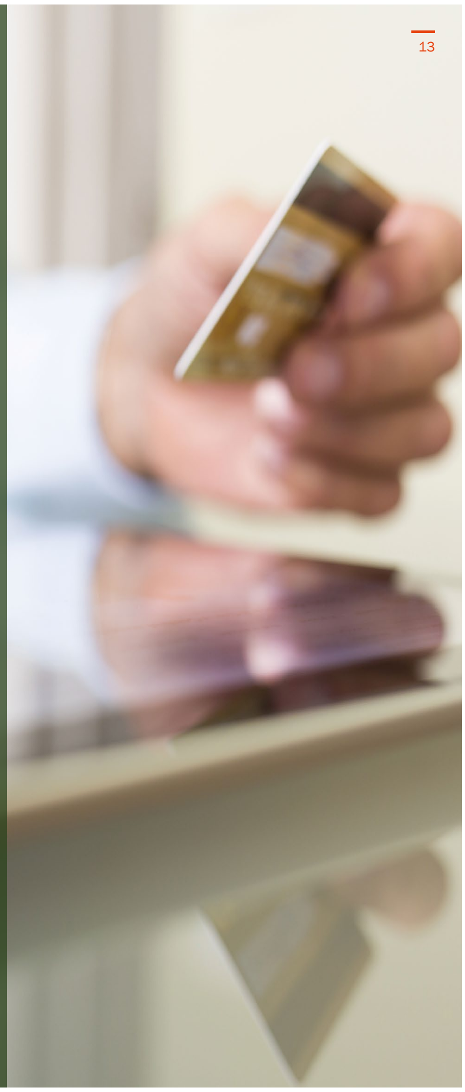
And it is not just Twitter but other social media sites as well: most leading retailers will have a presence on sites such as Facebook and Pinterest (a Pinboard-style photo sharing website). Facebook provides a great channel for getting free feedback from customers in addition to the opportunity to share and promote promotions and events in store. The key is to ensure that the Facebook page is actively monitored and that any feedback receives a positive and timely response. Many retailers, including some garden centres such as Notcutts and Hilliers, are also making use of YouTube as an easy way for customers to access their 'How To' and inspirational video guides.

CONCLUSIONS

Omni-channel has already fundamentally reshaped the retail landscape in the UK, however the Garden Centre sector is significantly behind the curve with limited online trading capability, and most offering little or no Click & Collect services. Up to now this may not have hindered business significantly, however we believe today's customer now expects these services and will shop with retailers that offer them. It represents a growth opportunity for those that embrace it, but also a serious threat to those that do not. Gardeners, like any other consumer, are changing the way that they live and shop, thanks partly to the technology available to them, and the sector must respond to this. Key questions to consider include:

- What purchasing channels will you offer?
  - Online
  - Mobile
  - In Store
- What delivery options?
  - Click & Collect
  - Delivery to home
- How can omni-channel support your ranging strategy?
  - Extended ranges online
  - Year-round availability of seasonal products
- How can omni-channel technology integrate into your in store proposition?
  - Increased levels of product information
  - Customer reviews
  - Video content

Note: for a more in depth review of omni-channel please read our 2013 White Paper "From eCommerce to Multi-Channel to Omni-Channel: The retail journey in the Home Improvement sector" that is available from our website: **www.mdj2.co.uk.**



Chapter Three:
The marketplace is changing

Putting aside the evolving role of the internet, 2013 saw some significant developments which could have far-reaching impacts for the garden centre market.

New entrants are making progress

Firstly the entry of Waitrose into the garden market, whilst not surprising, has seen them invest heavily in making a real impact, signing up Alan Titchmarsh as their ambassador along the way. After initially launching their offer in Newbury, they quickly rolled out to 41 stores during the 2013 season, and have recently announced plans to extend to 150 stores in 2014. Their online partner Crocus recently reported that sales had grown by 20% in the latest financial year with the Waitrose deal a key contributor to this. Given Waitrose's customer profile, there is a very real prospect that they look set to succeed in a way that the other big supermarket chains have found difficult to achieve. It has certainly got the industry talking with widely-respected Scotsdales MD Caroline Owen, who received a 'Lifetime Achievement' award at the Garden Retail Awards recently, commenting in Horticulture Week "Certainly Waitrose are a concern because we could lose the visit. If they buy an anniversary rose outside Waitrose they might not then come to you." Likewise Van Hage MD Chris Roberts, speaking at Garden Futures in October said "At Waitrose they're serious about online gardening. It's not like Crocus doing it on their own. It's concerning that they're doing so well."

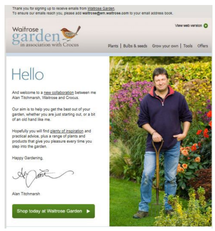
Waitrose launched their new garden offer in 41 stores during 2013

The emerging rollout of Next's Home & Garden format is also significant. Originally trialled in Shoreham, West Sussex in 2012, they have opened a further 3 stores during 2013, the latest a former-Homebase location in Camberley, Surrey. Next's recent half-year report eludes to a further 11 locations in advanced negotiation with planners, whilst 18 more are in the early stages of negotiations. So what is the garden offer in these stores? The external garden centre area is relatively small in both Shoreham and Camberley, probably little more than 5,000sq.ft, but features a range of seasonal shrubs, roses and perennials, interspersed with well-dressed sheds and summerhouses. Also prominent is a strong range of feature plants e.g. shaped Buxus. The limited range will never compete with the extensive selection you find in a garden-centre, but it's easy to see how Next will trade well on decorative, impulse and gift purchases.

Alongside plants you'll find a very limited range of compost and aggregates. Inside you will find a basic range of tools, sundries and watering, along with garden-gifting and birdcare. Overall whilst the offer is relatively limited, Next's merchandising skills are used to good effect to make

"At Waitrose they're serious about online gardening. It's not like Crocus doing it on their own. It's concerning that they're doing so well."

Chris Roberts, MD Van Hage



Next , Shoreham – the first new format 'Home & Garden' store

the area feel inviting. Given their market-leading online capabilities, the industry should not under-estimate that Next has the ability to carve out a sizeable garden business over the next few years.

The major home-improvement 'Sheds' are in transition

One of the most significant developments over the last year is that the Home Improvement 'Sheds', with only B&Q and Homebase now left standing, are re-evaluating the shape and size of their store portfolios in the face of an evolving market, with both openly stating that they are looking at opportunities to close or down-size some stores as they 'right-size' for an omni-channel market. At a local level this may present opportunities for garden centres if a key volume-player drops out of a local market, however both chains are likely to emerge stronger as they re-invest for the future.

In typical Kingfisher-style the project is already well underway at B&Q with Belvedere the first store to be tackled. Originally opened as a 120,000sq. ft B&Q Warehouse, the store has now been split to make way for a 60,000sq.ft ASDA supermarket, which opened in August 2013.

A similar deal, this time with Morrisons, was announced in early September for the Ipswich store. Kingfisher has been clear that sub-letting space on this scale is notoriously difficult and lengthy, with complex planning issues to be resolved often including change of use. However in their Interim Results announcement at the end of September it was announced that 18 agreements, including the two above) are already in place subject to planning permission being granted. At a strategic level Kingfisher CEO Ian Cheshire has been quoted this year as saying he believes that B&Q can take the same sales through 20% less space as it adapts to an omni-channel market.

It would be easy to assume that its 'right-sizing' project signals a business on the back-foot, however this could not be further from the truth. B&Q is a formidable market leader, and despite recent challenges, is gearing-up for growth again. A major boardroom re-shuffle in October 2013 has seen the appointment of Kingfisher's Kevin O'Byrne as CEO, along with the return of three former-B&Q Directors from within the Kingfisher fold including Steve Willett (Chairman and former-CEO of Screwfix) to lead B&Q's omni-channel strategy. Dave Lowther returns as Logistics and Supply Chain Director, having held the same role at Screwfix. Making up the trio is Guy Eccles who returns to B&Q as HR Director, again from Screwfix. In another statement-of-intent Ian Cheshire also announced the arrival of Chris Moss (brand creator of Orange and 118 118) as Customer & Marketing Director. Whilst board changes are usually unsettling, in this case the depth of B&Q experience means the team are likely to hit the ground running!

In terms of their garden business, B&Q remain the market leader in sales volume terms and continue to invest in the

B&Q Belvedere – the store has now been reduced in size to make way for a 60,000sq.ft ASDA

B&Q Poole included the introduction of garden feature pods

category. During Spring 2013 they opened 3 new format 'Manifesto' stores covering the range of store sizes within the B&Q estate. The largest store to be transformed was Poole, one of the original Warehouse-format stores originally opened in the early 90's. The garden centre received its share of investment including all-new plant display equipment, a Fordingbridge walkway canopy installed along the length of the external area, and new display techniques in Garden Buildings and Landscaping. Inside a new-look coffee shop has been introduced with folding doors opening out onto the garden centre in fine weather. Focal display PODs (see picture) have been introduced to present inspirational garden-room ideas, whilst lower racking heights allow customers to look across the garden area. Stores in Bognor (former Mini-Warehouse) and Banbury (former Supercentre) complete the line-up of stores which B&Q says it will use as working laboratories to develop and test new ideas.

Across at Homebase, the retailer recently made its intentions clear on its strategy for the future "The Homebase strategy is to position itself as a clearly differentiated multi-channel home enhancement retailer, creating both a store and online experience, with a softer, more stylish female-friendly proposition." As part of this strategy, MD Paul Loft has suggested in interviews that the retailer may close up to 40 stores over the next few years, as it also re-shapes in a changing market. In most cases the closures will take place as leases expire, notable locations closed to date include Shoreham, Camberley, Bolton, Shrewsbury, Hereford, Great Yarmouth and Cwmbran. Whilst closures show one picture, Homebase is still opening new stores in selected markets with Hexham and Bromsgrove currently under construction and due to open in spring 2014.

Homebase has continually shown an appetite to grow its garden centre business, and this has been reinforced through investment in transforming c25 of its centres during 2013, including locations such as Battersea, Horsham and Ewell. The makeover has focused on building horticulture credentials, with an increase in plant space and the introduction of wooden plant tables and benches. It's no surprise that the overall feel of the centre reflects Homebase's 'more stylish female-friendly' strategy with 'Create The Look' feature display PODS, timber perimeter fencing and large inspirational graphics completing the package.

Homebase continues to invest heavily in developing people, with instore gardening teams able to undertake a City & Guilds programme. Buoyed by the success of a gold-medal winning garden at Chelsea 2013, they are also looking ahead to tomorrow's gardeners. Garden Designer Adam Frost, who designed the 'Sowing the Seeds of Change' garden, is now working with the retailer on their recently launched Garden Academy apprenticeship scheme, which will see students spending time each month with Adam, as well as working hands-on in store. The scheme recognises an increasing concern within the industry about how to nurture the next generation of gardeners, with Adam Frost reflecting the views of many "I am increasingly worried that our next generation of young people are not connecting with what's

"I am increasingly worried that our next generation of young people are not connecting with what's outside their backdoor. This is not only a social issue, but increasingly a challenge for our industry as young people are not excited by careers in gardening."

Adam Frost. Garden Designer

Dobbies' Melville upgrade introduced more concession units

outside their backdoor. This is not only a social issue, but increasingly a challenge for our industry as young people are not excited by careers in gardening."

The acquisition and investment trail has come alive

During the second half of 2013 the acquisition market came alive with a flurry of activity, reflecting a renewed optimism in the sector.

The Garden Centre Group has been flexing Terra Firma's financial muscles acquiring no fewer than 10 centres including the 7-strong Garden & Leisure Group. As part of the Garden & Leisure acquisition, TGCG will also now work with Waitrose on the redevelopment of the Percy Thrower's centre near Shrewsbury, which will see a new supermarket built alongside a purpose-built 50,000sq.ft garden centre.

As well as acquisitions, more of which are likely, a refresh of the flagship Bicester Avenue centre confirms TGCG's intentions to extend their leisure offer, through the introduction of additional concessions. Outline planning permission has recently been secured for an extension to Sanders Gardening World, although TGCG say they have no firm plans for the site yet.

In recent interviews CEO Kevin Bradshaw gave a good insight into the strategy the group is adopting with additional concessions, especially within leisure categories, and restaurants among key priorities, with investments options being considered on a site-by-site basis. One area of the strategy which has caused much comment within the industry is the suggestion that the group is looking to broaden its focus beyond a traditionally elderly, affluent customer base. TGCG has also implemented significant changes in its senior management team during the latter part of 2013.

Blue Diamond, led by Alan Roper, continues to strengthen with the leasehold acquisition of Fermoys in Devon announced in October, bringing the group to 15 centres and approaching £70m turnover, and stating its aim to continue expanding over the next few years. It intends to completely redevelop the Fermoys centre, and the early stages of seeking planning approval are already underway. The redevelopment of Redfields, a leasehold acquisition in 2010, is well underway with Phase I re-opened in November 2013. Although trading from less than 50% of its eventual space, with Phase II due to be completed in spring 2014, visits to the centre reveal Blue Diamond's passion for delivering a unique customer experience. Whilst opening in damp, cold November, it is clear the centre will focus on horticulture

Notcutts Pembury opens in Spring 14

at its core, with an innovative glasshouse design that can be fully enclosed in winter, then opened up to blend-in with the outdoor plant area when Spring arrives. High-quality visual merchandising, utilising bespoke display units, gives the centre an enticing feel, and the introduction of a large 'Café Theatre' restaurant again offers a very visual experience. The centre clearly re-affirms Blue Diamonds strategy of targeting ABC1 customers.

Elsewhere, significant changes at Tesco-owned Dobbies have seen the surprise departure of Chief Executive James Barnes after 23 years, whilst they have continued to press ahead with growth plans opening their 34th centre in Kings Lynn, the first joint new-build site with Tesco, in October. The company have recently submitted a planning application for a similar shared site in East Kilbride. The flagship Edinburgh centre also re-launched following a £1.5m revamp and extension. With Andy King, former Notcutts CEO, now at the helm, a renewed growth drive is widely expected.

Whilst revamping centres is one thing, developing a new format requires drive and ambition and that's exactly what Notcutts have shown with the news that they have engaged leading store design agency Dalziel & Pow to transform their centre in Pembury nr Tunbridge Wells, due to open in Spring 2014. Award-winning Dalziel & Pow have been the creative influence behind several high-profile retail formats launched in the UK retail over the past couple of years including Next Home & Garden, John Lewis & Primark, so we expect to see something impressive.

In an industry that thrives under independent ownership, it is not just the chains that are looking ahead to the future, with leading centre Bents having secured local authority support for its ambitious £10m 10-year expansion plan.

Having won three consecutive GCA Garden Centre of the Year awards during 2009-2011, under the leadership of Matthew Bent they now aim to create what is described as a '"garden, home and leisure department store". Longacres, another family-owned business, reported to be the UK's highest turnover centre, also undertook major redevelopment of its Bagshot site during 2012, including the introduction of a 140-seat cafe and Food Hall. In the autumn it also announced the acquisition of a second garden centre in Shepperton.

A fast-growing value sector should not be ignored

A final thought on competitive development within the garden market is that the rapid growth of the value retail sector should not be ignored. Whilst most garden centres would not admit to considering them as competition, these retailers trade on high footfalls and have the ability to syphon-off lower-value convenience purchases in areas such as tools and sundries. For those that believe more affluent customers don't shop with discount retailers, it would be worth reading up on where Aldi and Lidl are gaining market share from the traditional supermarkets. Aldi makes no secret of the success it is enjoying targeting the middle-classes.

Since the demise of Woolworths at the start of the financial crisis, value retailers have capitalised on squeezed consumer spending, opening large numbers of stores, both on high streets and out-of-town retail parks taking advantage of high vacancy rates. As an example Poundland grew sales by 15% in its last financial year with turnover of £880m, trading from nearly 500 stores compared to 263 stores just 3 years ago. So whilst garden centres will clearly seek to tread a very different path, keep one eye on value-conscious consumers being tempted away by the value operators.

Bents have announced ambitious expansion plans

DID YOU KNOW...

B&M Bargains
(Terry Leahy chairman) Sales £937m +31.5% (350 stores)

Poundland
Sales £880m +15% yoy (500 Stores)

The Range
Sales £382m +29% yoy (85 Stores)

99p Stores
£270m 230 stores to April 13

Poundworld
£206m +55% to Mar 12

Chapter Four:
The role of stores is changing

The emergence of omni-channel shopping is re-defining what customers want from a physical store, and provides an important wake-up call for retailers to improve their in store customer proposition… standing still is no longer an option.

Given the explosion of internet retailing over the past few years, it is no surprise that the role of physical stores has come under much scrutiny. Only 2 or 3 years ago commentators were speculating about the death of retail stores. But now the story is evolving… as online retailing matures, it has become clear that customers remain in control, and as some of the behaviours outlined in the omni-channel section of this report demonstrate, there is still a massive role for stores to play.

Online retailers are opening stores

In fact the online market has evolved so much that some online-only retailers have decided that they need to open stores in order for their business to flourish. Take for example Kiddicare, a leading specialist in baby and nursery equipment. Originally operating online, they opened one store alongside their warehouse in Peterborough. Increasingly over time it became clear that customers wanted to be able to see and test products, especially with the emotional importance attached to purchases for a new-born baby. As a result Kiddicare, now owned by Morrisons, has opened another 10 superstores across the country in the last 2 years. Other notable examples of online retailers turning to stores for growth are Screwfix, originally a mail-order and web retailer which now has over 300 stores, and Oak Furniture Land which after many years as an online-only retailer has opened 47 showrooms over the past 3 years. All this suggests that stores will continue to play a pivotal role in the retail landscape even if the role of the store is changing.

Stores still play a vital role for customers

In the face of a fast-changing consumer and marketplace, garden centre businesses should be re-evaluating their in store customer proposition and developing plans to capitalise on the opportunities on offer. Most businesses, large or small, will believe that their stores already have a distinct personality or brand, but there has never been a more important time to take a look in the mirror and challenge whether you are doing enough to make sure your business is ready to deliver for tomorrow's customer.

It has become clear as omni-channel retailing has started to mature, that patterns are emerging about how customers see the role of physical stores. Make no mistake Britain's love shopping, and despite reports of the 'death of the high street' over the last few years, stores and garden centres will continue to be at the heart of shopping.

"Contrary to some headlines, we don't think that online shopping is replacing the high street. In fact, our shoppers tell us that they still enjoy shopping as a leisure activity."

John Lewis – How We Shop Report
Oct 2013

"The days of treating a store as an open stockroom are thankfully long gone. It is not enough to simply allow access to the product on offer... a retailer needs to enhance that product, romance that product, tell a story and give me a reason to want to buy that product"

David Dalziel, Dalziel & Pow, Dec 2013

Stores need to inspire and excite

What is becoming apparent is that customers have learnt to recognise the benefits of using different shopping channels for their purchases, depending on whether it is convenience or inspiration that they are looking for. This is where the role of tomorrow's stores comes into focus, with many major retailers investing heavily in updating their store formats.

With the web offering a functional, reliable option to shoppers, stores need to increasingly offer a unique, engaging experience, something special – a WOW factor. It is no longer enough to just have rows and rows of gondola fixtures, no matter how good your range or prices are. Remember the internet is a very effective gondola shelf!

"The days of treating a store as an open stockroom are thankfully long gone. It is not enough to simply allow access to the product on offer... a retailer needs to enhance that product, romance that product, tell a story and give me a reason to want to buy that product"

David Dalziel, Dalziel & Pow, Dec 2013

For decades retailers have recognised the importance of great displays, or visual merchandising as we refer to it today, to tempt customers to part with their hard-earned cash, but it could be argued that over the last 10 years rigid systems disciplines such as Epos and Stock Management have pushed retailers towards compliance-based merchandising with planograms replacing visual flair. The result is often a very functional store. It's an issue the major supermarkets have recognised over the past couple of years, resulting in the re-emergence of highly-visual fresh food counters in their latest store designs. Customers want to be inspired!

Many garden centres already consider themselves a destination visit, enhanced by restaurants and coffee shops, whilst others have the added bonus of on-site visitor attractions or gardens. The introduction of Farmshops in some larger centres is an example of diversification providing customers with additional reasons to visit. The key challenge though is to ensure that the core retail offer contributes to that destination appeal, in terms of range, service and environment. Garden centres are the specialists of the garden sector, and should therefore

Visual excitement entices customers at La Boqueria market in Barcelona

Brambridge Garden Centre, Nr Winchester, Christmas 2013

deliver clear differentiation compared to generalists. That means comprehensive ranging, supported by knowledgeable service, in an inspiring environment.

Make it obvious what you stand for

When a customer arrives on your doormat it should be immediately obvious to them what your business wants to be famous for. Stating the obvious, for a garden centre this should start with gardening, and many centres have great displays of vibrant plants near the entrance, however it is also not unusual to be greeted by spinner racks of key rings or cuddly toys! First impressions really do count, and setting the scene for what customers can expect throughout your centre is key.

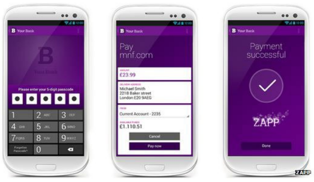
Throughout the centre customers should be reminded of your core strengths. Is your plantaria truly inspirational or is it just a plant supermarket? Does your Fertilisers and Chemicals department stock a specialist range supported by great customer information to assist with buying the right product for the job?

There are plenty of good examples of the sector embracing the need to deliver a great customer experience, but there are also many centres which look tired and need reinvigorating . The quality of visual merchandising at the re-launch of Blue Diamond's Redfields centre (Phase 1) in November 2013 would not have looked out of place in Selfridges, and watching the faces of customers as they enter 'Café Theatre' restaurant speaks for itself. Another example is Bents award-winning 'Open Skies' planteria which offers a visually stunning environment, whilst it's also widely expected that Notcutts redevelopment at Pembury will offer fresh thinking. As proved again in 2013 garden centres have a great reputation for delivering the best Christmas Shops in retail, the challenge is to deliver the same level of visual inspiration across centres all-year-round.

Provide customers with great information to help them buy

Clearly many products simply fulfill a functional need, and don't require lavish displays, however it is still possible to enhance the shopping experience on these products. It is important to consider what level of advice and guidance you offer customers in store, not just from your teams, but also from signage or interactive content. If a customer can get better purchasing advice and guidance online why would they visit your store?

Take for example buying Felco secateurs, a trusted investment for many gardeners. A visit to Felco's website allows the customer to read in detail about the features and benefits of each model, and make an informed choice. The same customer could visit most garden centres and only be able to view the limited amount of information on the packaging – which would be ok if they weren't locked away



New payment technologies can improve convenience at the till

in a display cabinet for security! Whilst cardboard POS might be used currently to assist the purchase, in tomorrow's stores this content is more likely to be delivered digitally, enabling the addition of photos, videos, customer reviews etc ... Customers have become increasingly used to researching products before buying them, both at home or in store. Just take a walk around any department store and watch how many customers are using their smartphones or in store screens to look at products, then consider the implications and opportunities of this, for example in key seasonal categories such as garden furniture and barbecues.

Suppliers can play a bigger part in delivering great centres

It is very common for suppliers to provide branded display stands as part of their commercial offering, but often the same stands will be found across all retailers. Often these stands offer little or no merchandising inspiration, nor do they offer digital content that can help your customer to make informed buying choices. An emerging trend in other sectors is suppliers working more closely with retailers to deliver bespoke propositions that really engage and excite customers. One of the best examples of this is in consumer electronics where big brands, such as Samsung and Sony, are working in partnership with retailers to deliver an enhanced in store experience. Similar opportunities exist within garden centres for suppliers to bring an additional dimension to their relationship with retailers.

Product innovation has always been a great source of sales growth across retail, customers want to see new and exciting things to spend their money on. Suppliers and retailers have an opportunity to work more closely to develop new products that not only meet an existing customer need, but more importantly create that need and demand. Apple are the clearest example of this approach where both the iPhone and iPad were created to offer consumers a product they didn't realise they needed!

Convenience is key for time-pressured customers

With 'Click & Collect' becoming a key feature throughout retail, many are now designing in purpose-built collection desks to make the experience as convenient as possible. Garden centres must consider how they plan to embed this within the centre layout, as a general-purpose service desk is unlikely to meet this need. In addition an opportunity to drive increased footfall could come from garden centres introducing collection points for internet shopping, such as Amazon lockers or Collect+. Elsewhere improving speed and efficiency at the checkouts brings obvious benefits to customers and retailers alike, especially on those all-important peak spring weekends. Payment technologies are rapidly evolving and can play a significant role in reducing transaction times.

Service really can be a differentiator now

Retailers have often claimed great customer service as a unique feature of their brand, as customers become increasingly used to the often impersonal shopping experience online, it heightens the opportunity to make great in store service a real reason to visit. Service is a top priority for most retailers, but delivering a consistently great customer experience is really hard to do, and your customers will no longer accept indifferent service. For many retailers this requires a step-change in thinking including rates of pay, skills and knowledge training, and service technology investment.

CONCLUSIONS

Like all areas of retail garden centres must evolve to meet and exceed the expectations of a changing customer - it simply won't be enough to stay as they are today. The winning centres of tomorrow will offer customers something special – an inspiring store delivering great ranges, advice, service and convenience. They will embrace changing technology and use it to their advantage, above all offering customers a compelling experience that they cannot get on the internet! Below are some of the key issues to consider include:

- Does your centre deliver a vibrant and compelling experience for customers?
  - Visual impact
  - Specialist authority in core categories
  - Physical condition of buildings and fixtures
- Are you delivering exceptional service?
  - In store team knowledge and service skills
  - Utilising technology to provide buying advice
- How could you offer your customers greater convenience?
  - Click & Collect
  - Till transaction speed and efficiency

Conclusions

The garden centre market has a bright future ahead, but many retailers are still delivering broadly the same proposition that they were 3 years ago. With the rapid growth of multi-channel, and the emergence of credible new competitors, this must be addressed. Winning businesses in the next few years will be those that embrace the customer and market changes that are all around us and deliver a vibrant, compelling proposition for their customers.

A number of conclusions emerge from this review:

1. Understand how your customers are changing

It is clear that technology and social factors are driving significant behavioural change in consumers of all ages. It is vitally important for any retailer to understand how this might impact their business – and it doesn't have to involve expensive customer research;

- **Talk to your customers** – not in focus groups, but informally in store;
  - How are their shopping habits changing?
  - Do they research / shop online?
- **Observe customers** – not just your own but visit a local town or city centre;
  - How and where are people engaging with technology as they shop?
  - Consider the age profile
- **Learn from others** – visit other retailers to see how they are adapting to changes in customer behaviour;
  - How can customers shop – in store, online, mobile?
  - What ordering and delivery options are available?
  - How are they adapting their in store experience?

2. Redefine your customer proposition strategy

Be clear on what you want your business to be famous for…

What will you offer?

Product Range

It is important that when customers arrive on your doormat, whether in store or online, it is immediately clear what your business stands for…

- **What are your 'hero' product categories?** They should be the ones that you want customers to think of you first for, and deserve their own strategy;
  - Customer behaviour - how is it changing in these categories?
  - Competition - who are they – remember in an omni-channel world it's not just garden centres
  - Customer experience - how can it be improved?
  - Price & promotion – what is your strategy?
  - Range innovation – how will you differentiate your ranges from others?
  - Partners - which suppliers will you build long-term relationships with?
- **Complimentary categories** - they have an important role to play, especially outside of the garden season.
  - How will you position your offer vs specialists?
- **Profit-opportunity categories** – recognise them for what they are, but don't allow spinner racks of keyrings to distract customers from your core business!
- **Concessions** – be clear whether they are there to drive footfall and compliment your offer or purely pay a rent?

Service

Most garden centres will claim that service is one of their points-of-difference, but is it genuinely true - what will make your service stand out from the crowd?

- **Service culture** – are your team recruited based on their ability to interact with customers and make them feel welcome? Does every customer that visits your centre get acknowledged?
- **Knowledge and expertise** – are you offering the best?
- **Information and advice** – how can you utilise technology to make it easier for customers to research and choose the right product for them?
  - Website - In store touchscreens - Customer reviews - Free wi-fi
- **Convenience** – can customers get in touch with your business how and when it suits them?
  - Instore - Phone - E-mail - Social media

Where will you offer it?

The retail landscape is changing at pace - how do you plan to meet the needs of an increasingly multi-channel customer?

In store

Do your centres offer customers an inspirational shopping experience, something special, a WOW factor? Why will customers choose to visit your centre rather than a competitor or online?

- **First impressions** – is it clear what your business stands for when a customer walks in the door?
- **Fixtures** – row after row of gondola or interesting flexible displays?
- **Merchandising** – exciting visual displays that draw you in or just stock on shelves?
- **Range** – what's unique, innovative, new?
- **Restaurants** – great fresh food and drinks in a comfy environment?
- **Advice and Information** – are you making it easy for customers to research and choose products that are right for them?
- **Service** – do customers get a friendly welcome and a smile when they visit you? What are the features that will make your service memorable?

Online

Omni-channel retail is here to stay and businesses are queuing up to poach your customers away. What is your strategy for enabling customers to shop with your business from the comfort of their home at a time that suits them?

- **Product range** – will you offer your in store range online, extended ranges not stocked instore or selected key categories?
- **Delivery options** – will you offer home delivery, Reserve & Collect or both?
- **Ideas, inspiration and advice** – how will you help and encourage customers to shop with you?

3. Develop and implement a change plan

Once you have a clear proposition strategy, you can develop an implementation plan to deliver the transformations needed. Some of the key areas to consider should include;

- **Team engagement** – help your team to understand and support the need for change
- **Priorities** – which opportunities do you tackle first, what will have the biggest customer impact?
- **Investment pla**n – what can the business afford?
- **Capability and pace** – do you have the people and skills needed to implement the plan at the speed you want?

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