

Retail Week

Kingfisher's Turkish adventure

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It might not attract as much attention as some overseas markets, but Turkey is one of Kingfisher's big hopes for the next decade. Rebecca Thomson reports on its plans there.

When retailers think about expanding internationally, Turkey may not be the first country that springs to mind. Fast-growth Asian economies typically attract most attention, or the more familiar cultures of Europe meant that is frequently the first place to try.

But DIY giant Kingfisher is convinced of the merits of Turkey – its Turkish chain, called Koçtaş, is on its way to becoming one of the group's most successful.

Kingfisher chief executive Ian Cheshire says the country is often discounted by retailers aiming to make money abroad, but that is a mistake. "It's one of those places people have preconceptions about," he says. "They don't think it's that major. Until you come and see it, it's hard to get across the scale of it."

Speaking to Retail Week at the opening of the 35th Koçtaş store – Kingfisher runs the chain in a 50-50 partnership with Turkish conglomerate Koc Group – Cheshire says the country has big potential. "There's no reason we can't have 100 stores in Turkey. There's a growth opportunity here for many years," he maintains.

The first day of the 8,600 sq ft store's opening seems to support Cheshire's confidence. The car park is full all day, and there are throngs of customers leaving with bulging shopping bags. The format of the store in Ankara is new – with a design loosely based on the Grand Bazaar in Istanbul, there is more emphasis on furnishings and home decoration, and it is designed to be a more inspiring place than many hardware-focused DIY stores.

Rooms for improvement:

Several houses have been built in the shop, each with rooms decorated to inspire consumers about what they could do in their own homes. Around 30% more expensive to build than most Koçtaş stores, it cost Kingfisher and Koc Group £4m.

Aspirational Turkish consumers seem keen to embrace the idea of home improvement. The country's population of 74 million is bigger than that of the UK or France – which is Kingfisher's second biggest market – and it is forecast to generate greater GDP in the future than Spain or Italy.

Turkey's GDP growth in the first half of the year was the highest in the world at 10.2%. Like China, Turkey's government is taking steps to cool it down slightly and ensure that the growth is sustainable.

The country is easier to adapt to as well, Cheshire says. Turkey combines some of the familiarity of European culture with the fast growth of Asian economies, and that is making it easier for Kingfisher to grow there than in the much-trumpeted Chinese market. While Asian economies will require completely different approaches, Turkey is well suited to the big-box model.

"Turkey is a halfway house between the Western DIY model and the Chinese 'do it for me' model," says Cheshire. "Turkey is European in a way China is not. We can adapt to Turkey; in China we are talking about reinvention."

Show how it's done:

That's not to say the model doesn't require some tweaks. Consumers in emerging markets often have not done much DIY before. They need ideas, hence the focus on furnishings and the decorated houses, which help people visualise what their own homes could look like.

More space must be dedicated to showrooms to inspire the growing middle classes to spend money. But ultimately a Koçtas store doesn't look wildly different from what UK shoppers would recognise as a B&Q store.

In China, by comparison, doing it yourself is an alien concept. Cheshire says 62% of product sold in China does not go through the store tills. The Chinese prefer to pay someone else to do the entire project for them, and will order in product for an entire flat or house to fill an empty concrete shell.

Cheshire says Kingfisher is considering its next move in China, and will announce its plans in March. While the market is huge, he says, progress must be made. "The business won't stay forever in a 40-store market that's break-even," he says.

While heavy investment in China is on the back-burner while Kingfisher considers which model will work, Turkish investment is continuing apace. Between six and eight stores will be opened a year, and the expansion is being funded by Koçtas's own cash flow.

The chain produced £300m in sales last year, with Kingfisher taking half of the £30m profit, and the return on capital expenditure is increasing after the early years of investment. But what is really important for Cheshire is the potential for continued growth over the next five to 10 years. "The whole role of Turkey is much more important to us going forward than it appears from the scale of the numbers today," he says. Much of this success, Cheshire maintains, is down to the success of the partnership between Kingfisher and Koc – a huge company that accounted for 7% of Turkey's GDP last year.

A family business that began with a single hardware store just outside Ankara, Koc Holding signed a partnership deal with Kingfisher in 2000.

Meeting of minds:

Cheshire says: “The Koc partnership is a model of the type of deals we look to do. The meeting of minds was clear early on. Generations have been involved with the business so it’s got a solidity that Western companies don’t always have.”

It has proven harder to find a partner that is such a good fit elsewhere in the world. In Russia, for instance, it has been hard to replicate the connection Kingfisher has with Koc.

Cheshire says what’s needed is someone with a national perspective who understands the property, logistics and operational issues. While plenty of potential Russian partners have a good understanding of Moscow or St Petersburg, it is difficult to find a company with a national perspective in such a vast country. “Here, we provide the retailing expertise and the Koc Group provides Turkish operating expertise,” he says. “It’s difficult to find that fit of all the things we would like in a partner, but it’s something we would like in other countries. It makes the chance of success more likely. I prefer being 50% of a great business than 100% of a disaster.”

Cheshire has had conversations with Koc about using Turkey as a base for further expansion into the Middle East, and says the first countries to try would be those with a cultural link to Turkey and with money to spend – such as Egypt. But that is a plan for the next decade, he adds, rather than the next couple of years.

India is also on the horizon for the company but, like China, it will need a more radical approach. Cheshire says Indian shoppers do not gravitate towards the DIY model, and that a new approach based on providing a complete service where everything is done for the shopper will be needed before it attempts to enter the market.

Kingfisher’s international strategy has been one of the UK’s most successful over the past decade, and its ambitions for the next one are clear. For home-grown retailers looking to make it big abroad, Kingfisher remains one to watch and emulate.

French innovation:

So top secret is the work being done in the new Kingfisher Innovation Centre in Lille, France, that the retailer will not let journalists in. “There’s a bunch of boffins round the corner working on interesting things, all under wraps,” says Kingfisher chief executive Ian Cheshire, speaking from Kingfisher France’s headquarters in the city.

The French business – which trades as Castorama and Brico Dépôt – is viewed as the creative force within the group, which also includes stores in Spain, Germany, Russia, Turkey, Poland and China.

It is working with suppliers, universities and other specialists to develop a pipeline of exclusive products, as Kingfisher aims to achieve 50% common core range across the group, compared with the current 1%.

While Brico Dépôt is the no-frills outfit aimed at the tradesman, Castorama is the more decorative, stylish elder sister. And it is here where the early signs of innovation within Kingfisher can be found. For example, the business has developed a move on from QR codes – a piece of software for the iPad that uses image recognition technology. Hover the iPad over an image of a power tool, for example, in the Castorama catalogue and it will take you to the product’s page on the website, giving product availability.

The Castorama store in Lille features TV screens to show product demonstrations, and QR codes on products take shoppers to YouTube videos about how to use the product.

The French arm not only impresses on the innovation front – it is now the biggest contributor to the DIY giant's bottom line, with retail profit growing 23.9% to £201m in the 26 weeks to July 30. That compares with retail profit of £182m in the UK and Ireland.

Cheshire says the French market is more resilient than the UK. "The French consumer is much less indebted than the UK consumer," says Cheshire. "People spend what they've got." And they have caught the DIY bug. Cheshire says there are more DIYers in France than the UK. The French also seem to have a penchant for owning second homes, and many choose to holiday in France.

Cheshire sees plenty of growth too, with floor space growing 2% to 3% a year, compared with 0.5% in the UK.