

Kingfisher Will Double Number of Polish Stores to Woo Decorative Consumers

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Kingfisher, Europe's largest home-improvement retailer, plans to double the number of Castorama stores in Poland and convert Brico Depot trade outlets there to the format to spur growth as U.K. spending sputters.

"We will continue to build stores because there's a lot of unoccupied market space," Chief Executive Officer Ian Cheshire said of the eastern European nation, Kingfisher's third-largest market, in an interview. "There's evidence of a more sophisticated, decorative and aspirational customer, so we can see top-line growth in that."

The Castorama chain, the market leader in Poland with more than 1 billion pounds (\$1.6 billion) in sales last year, sees scope for about 120 outlets in the medium term, up from 60 now, said Janusz Lella, head of the Polish unit.

Cheshire plans to stock stores with more decorative items such as lighting and furnishings to attract more women.

In [Poland](#), where same-store revenue climbed 4.5 percent in the first quarter after dropping 2.8 percent in fiscal 2010, Cheshire expects "not a banner year, but it will be okay," as consumer sentiment improves. "All signs are it will be a well-based, robust economy." The unit accounted for 18 percent of the group's retail profit last year.

Kingfisher, which also owns the B&Q chain in the U.K., has conceded it expects a tough year in the domestic market, where same-store sales

advanced 1.4 percent in the first quarter. The company warned earlier this month that the second quarter would be “more challenging” as many people purchased items around public holiday late in the previous period.

The shares rose 0.9 pence, or 0.3 percent, to 268.4 pence at 9:22 a.m. in London trading. They have gained 1.9 percent this year, giving Kingfisher a market value of 6.3 billion pounds. [Home Depot Inc. \(HD\)](#), the biggest U.S. home-improvement chain, has lost 4.5 percent of its value in the same period.

Wallpaper and Lamps

For Kingfisher, six new stores are planned in Poland this year and up to 10 per year are possible. Privately held French chain Leroy Merlin is the second-largest in the do-it-yourself market in Poland, followed by [Germany's](#) Obi. Castorama, which promises “every day low prices” to target value-conscious customers, is adding interior displays that feature wallpaper and cushions as it shifts focus from trade items like bricks and floor tiles. So far, 10 stores have been opened or upgraded to include color-coded signage and more decorative products like lighting. An own-brand lamp from its private-label “Colours” line sells for 83 zloty (\$30).

The new format will be positive for the company’s gross margin as the decorative products tend to be more profitable than building materials, said Andy Hughes, an analyst at UBS AG. He anticipates “some acceleration” of sales this year for Kingfisher in Poland.

Converting Brico

About 80 percent of customers are individuals compared with 20 percent of professional tradesmen, Lella said. Still, the brand awareness, loyalty and frequency of shopping trips at Castorama means it makes sense to fold the six Brico Depot stores into the Castorama brand, if the company gets planning permission.

The smaller, trade-oriented Brico Depot outlets are typically 2,000 square meters (21,527 square feet) of selling space combined with a warehouse that could be converted into a 5,000 square-meter Castorama store. The retailer, which opened its first Brico Depot in Warsaw in June 2006, says the brand overlaps with Castorama in Poland. In [France](#), where Kingfisher has both chains, the brands are more differentiated and Brico Depot is successful there, Cheshire added.

Direct Sourcing

Ramping up the direct sourcing of own-label products like the 934-zloty Cooke & Lewis shower unit cabin, will also drive profits, Cheshire said. The retailer's other own-brands include Macallister power tools and Blyss electrical products.

Castorama added a new warehouse outside Warsaw in September, which sources about 1,000 own-brand products directly from factories. It now accounts for about 6 percent of products, and Lella aims to grow that by 50 percent this year. The U.K. and France directly source about 15 percent of products.

"It will always be slightly lower than the U.K. and France because there's good, local, low-cost suppliers," Cheshire said. Still, direct sourcing and own-brands are some of the "big opportunities" Poland provides for Kingfisher, the CEO said.

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