

Kingfisher CEO Sees U.K First-Time Buyer Revival Lifting DIY

Author: Sarah Shannon

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Financial assistance for first-time home buyers in Britain is likely to prompt a resurgence of do-it-yourself spending after several years of decline, according to Kingfisher Plc (KGF) Chief Executive Officer Ian Cheshire.

Loans to new purchasers have been made more accessible by a government program that allows lenders to borrow cheaply from the Bank of England provided they pass the money onto home buyers, Cheshire, 53, said in an interview in London. A program that helps people struggling to raise a deposit for a newly-built home is also breathing life into the market, he said.

“If lending starts and these first-home buyers come back into the market, you will see do-it-yourself come back in,” Cheshire said. Sales (KGF) at Kingfisher’s B&Q, Britain’s biggest home-improvement chain, should benefit within six months of a rebound in U.K. housing transactions, he said.

Europe’s largest home-improvement retailer could use a boost. The London-based company is battling to reverse three straight quarters of falling same-store sales in its domestic market after the do-it-yourself, or DIY, and professional-building industries shrank by 7 billion pounds (\$11 billion) between 2008 and 2012, according to Cheshire. That’s shrunk the market to 42 billion pounds a year from 49 billion pounds.

First-Time Purchases

There are signs of a recovery in U.K. real estate. House prices in England and Wales increased to a record in May as the availability of mortgages improved. Gross mortgage lending rose 17 percent last month to the highest level since October 2008, the Council of Mortgage Lenders said, while today the British Bankers Association said May mortgage approvals rose to the highest since January 2012.

Purchases by first-time buyers climbed to a 13-month high in April, according to LSL Property Services Plc. (LSL)

Transactions have been boosted by the U.K. government’s “Help to Buy” program for deposits on new homes, which will be extended to existing housing in January.

“U.K. government measures look well aimed at reviving first-time buyers, and with them overall housing transactions and DIY spend,” said James Grzanic, an analyst at Jefferies in London. “As a result, we expect a major U.K. like-for-like pick-up and margin expansion at Kingfisher.”

Peeling Wallpaper

While competitors such as Home Retail Group Plc’s (HOME) Homebase rely on the do-it-for-me side of the market with kitchen and bathroom installations, Cheshire has focused more on DIY in order to benefit when housing sales rebound.

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That strategy is finding favor with investors. Kingfisher shares have risen 19 percent since the beginning of this year, beating Home Retail's (HOME) 5 percent gain. The stock rose 0.3 percent to 337.4 pence at 8:33 a.m. in London trading today.

B&Q is trying to make DIY easier with online project advice, new products like Valspar paint that can be customized to match any scanned color, and a marketing campaign with the tagline "Handy Prices to Help You Do It."

Cheshire said the falloff of DIY sales over the last five years reflects a dearth of first-time buyers, rather than any aversion to DIY on the part of British consumers.

"The idea that DIY is shunned because people don't know how to do it, I'm not sure I believe it," he said.

Wall Art

Not everyone shares the CEO's optimism. Market researcher Conlumino said last month that consumer interest in DIY is waning because shoppers lack the skills and inclination to, say, replace that peeling wallpaper in the bedroom. Kate Calvert, an analyst at Cantor Fitzgerald in London, said there is a "marked shift from DIY to Do-it-For-Me."

While small DIY projects are happening now, more-expensive items like new kitchens are "on hold," said Cruz del Barrio, an analyst at data tracker Euromonitor, which estimates the U.K. DIY market won't return to growth until 2014.

At the 100,000 square feet (9,290 square meters) B&Q store in Farnborough, southern England, a range of blue, red and cream wallpaper, curtains, cushions and wall art are gathered together in one aisle to encourage shoppers fitting out an entire room to buy more. Last year, wall art was as big a seller as wallpaper, with a 19.98-pound vintage comic line being a popular item.

Cheshire has hedged his bet on DIY's resurgence by maintaining the chain's do-it-for-me offerings, including a new service dubbed "Homefit" that links customers and tradesmen at pre-agreed prices for, say, boiler installations or smaller projects like laying carpet. "Need a Boiler fitting, we can do it from 1,149 pounds," a sign in the Farnborough store reads.

More Savings

Kingfisher also sees an opportunity to grow its share of the professional trade market that targets electricians and plumbers, a category dominated by independent stores and specialist chains like Travis Perkins Plc. (TPK) There, Kingfisher currently hold about 5 percent market share thanks in part to its 285 Screwfix outlets.

"There are a number of trends playing out and there is not just one solution," Cheshire said.

For Kingfisher to turn things around, Cheshire needs to lure more people like Elkie Philips, a 31-year-old hair and makeup artist who just bought her first home in the London suburb of Walthamstow. She's planning an overhaul of the two-bedroom house.

"We definitely need a new kitchen, and we'll be doing that ourselves to save splashing the cash," she said.

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Other projects Philips has in mind include painting the walls, putting up wallpaper, freshening up the garden and convincing her boyfriend to buy a cat. Lower mortgage rates and an additional few years of savings helped them purchase the house after several years of searching.

“We’re really excited,” she said, “and we can’t wait” to start.

Link:

www.businessweek.com/news/2013-06-25/kingfisher-ceo-sees-british-first-time-buyer-revival-lifting-diy#p1