

From eCommerce to Multi-Channel to Omni-Channel

The retail journey in the Home Improvement sector



"Recognizing that customers are increasingly shopping across channels, we are focused on providing a seamless Multi-Channel experience, making it convenient for them wherever and whenever they choose to engage with Lowe's"

Robert Niblock, President Lowe's

Lowe's: purchased online Home Improvement retailer ATG in late 2011. At the time of purchase ATG stocked 3.5m sku's from 3,300 manufacturers and operated over 500 websites.

Home Depot: Interconnected Retail.

As customers increasingly expect to be able to buy how, when and where they want, we believe that providing a seamless shopping experience across multiple channels, with an expanded array of merchandise, will be a key enabler for future success.

The interconnected retail initiative is woven throughout our business and connects our other three key initiatives. In fiscal 2012, we launched several projects to support this initiative, starting in the first quarter with the rollout of a significant upgrade to our website, which enhanced the layout, visual appearance and responsiveness of the site. We also began construction of a new distribution centre to support direct-to-customer fulfilment, with a second distribution centre also under development, and we added new customer call centres in Utah and Georgia. Lastly, we introduced new programs, such as Buy Online, Return In Store ("BORIS") and Buy Online, Ship to Store ("BOSS"), to expand upon Buy Online, Pick-Up In Store ("BOPIS"), which we introduced in fiscal 2011. Home Depot Annual Report 2012

Groupe Adeo: (owners of Leroy Merlin) purchased French online Home Improvement retailers delamaison.fr and decoclico.fr in June 2012.

Purpose & contents of this White Paper

We think that with Multi-Channel already high on (or at least moving rapidly up) the priority list of every Home Improvement retailer and supplier, it is timely to provide a review of what is going on within Multi-Channel in the sector. Our intention is to provide some 'food for thought' with relevant examples of best practice to help with making the key decisions all retailers and suppliers are facing:

- What is our Multi-Channel strategy and how should it fit within our overall strategy?
- Should we have all our range, a selected range or an extended range available to buy online?
- Should we have a single price policy across all channels?
- How do our stores need to adapt? Do we need so many and are the current 'Big-box' stores too large?
- Do we need a mobile-optimised site? What about a smartphone app?
- How should we develop our approach to social media such as Facebook and Twitter? Should we have our own online community site?

This is not intended to be an exhaustive review of every player's Multi-Channel developments, nor a technology review to identify what eCommerce platform you may require. We have focussed on the UK (as it is the market we know best and is relatively developed from a Multi-Channel perspective) supplemented with other examples from around the world especially the USA. We also include examples of best practice from other retail sectors where Multi-Channel is already more developed than in the Home Improvement market. Given the rapid pace of change it is likely that many of the examples given here will soon be out of date. Nevertheless we think the conclusions will remain valid for some time. We also think it worth mentioning terminology. In the early days of the internet it was all about eCommerce, then it became Multi-Channel and now Omni-Channel. It is helpful to be clear on the differences as they drive different investment plans and strategies. Our definitions (simplified to emphasise the differences):

- eCommerce: the ability to transact over the internet
- Multi-Channel: the ability to transact over multiple channels (but not necessarily across more than one channel in a single transaction)
- Omni-Channel: the ability to transact across multiple channels in a single transaction

Clearly the trend is towards Omni rather than Multi-Channel as this is what customers expect. But it also has more demanding implications on services offered and the investment required to offer a seamless 'Omni-Channel' experience for customers.

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First things first... what's your strategy?

At the risk of stating the obvious it is essential to view Multi-Channel strategy in the context of your overall company strategy. What the review of the Multi-Channel approaches of the key players in the UK market shows is that they tend to adopt one of two broad strategies, each based on a fundamentally different target set of customers and the resulting proposition:



Group 1: e.g. B&Q, Homebase, IKEA i.e. the Big-box stores with large ranges targeting a broad set of consumer segments who tend to shop infrequently, are relatively less price aware but are in need of both information and inspiration. These retailers tend to have a relatively expensive operating cost model for their stores with high fixed costs (rent and staff). As a result these retailers favour their stores as the primary channel for transacting with customers. For example, some do not make all of their ranges available to purchase online, 'Order Online/Collect Instore' services tend to be less advanced, but by contrast there is a wealth of information, ideas and inspiration on their websites. While consumers may transact online and have their products delivered to their homes the emphasis is to get consumers to visit the retailers' stores.

Group 2: e.g. Screwfix, Toolstation i.e. smaller-format stores with smaller ranges aimed at a narrower set of target customers (the 'serious' DIY'er and 'small' Tradesman); these customers tend to shop for Home Improvement products on a regular basis, are relatively price-sensitive, have less need for advice and inspiration but who view convenience as a key differentiator. These retailers also have a lower operating cost model for their stores, which are sited on lower-rent industrial parks and with a lower staff cost as a % of sales than the retailers in Group 1. As a result these retailers can be described as 'channel agnostic' i.e. they are relatively indifferent to which channel(s) their customers use and have an Omni-Channel approach that tries to make shopping with them as convenient as possible, whether that is 100% in store or via a combination of channels such as order online, collect in store or order online for home (or site) delivery. These retailers tend to have a more developed website from the perspective of transactional capability i.e. full range available to order online for store collection or delivery, a mobile version of their sites that allows quick and easy shopping from a smartphone (including via an app). In contrast there is less focus on information and even less on ideas/inspiration on their websites than on those of the Group 1 retailers.

Contrasting statistics in support of these differing strategies:



Fact: When Kingfisher last reported (in the year to January 2012) Screwfix's sales by channel it reported '(stores) now accounting for almost 2/3 of sales' (i.e. ca 1/3 via online); in comparison Home Retail Group announced in 2012 that Homebase sales participation via the internet 'has grown by 25% year-on-year to almost 5%'

Fact: Products ordered via B&Q's Reserve & Collect service are available to collect from the store of choice the next day; products ordered via Screwfix's Click & Collect are available to collect 5 minutes after placing the order!



Non-Home Improvement case study:



Dixons is the leading Multi-Channel retailer in the UK Electricals market. In the face of intense competition from internet-based retailers (mainly Amazon but also numerous others including Play.com and eBay) its profits in the UK had fallen from £254m to £59m between 2004 and 2009. What had been a major asset (its stores) had become in some ways a liability. In a retail sector where price comparison is relatively easy it could not afford to price match online-only competitors but in the words of its CEO

"Customers won't pay (a price premium for buying from a retailer with stores and staff that can offer advice)...so we have to change".

Dixons CEO Sebastian James

As a result Dixons embarked on a major transformation to reinvent itself from a business based on having an effective supply chain to one based on having great service. While its strategy was based on a Multi-Channel approach, it put its stores as the heart of this strategy. Although 82% of Dixons customers start their buying journey online, 94% spend at least some of their buying journey in one of its stores. This presented Dixons with a great opportunity to 'have a conversation' with its customers. As Sebastian James says "earn the conversation... monetise the conversation". To do this required a major reinvention of the Dixons business model. In addition to the more typical Multi-Channel developments such as enhancements to the website and eCommerce capabilities, many of the changes occurred to the in-store proposition. Some of these changes include:

- Creation of an Electricals 'megastore' merging Dixons' two 'out of town' brands Curry and PC World



- Major store revamps to improve "everything beyond recognition" including layout, product displays with working demonstrations, signage, product information etc
- Real focus on advice and expertise from store staff, requiring a major investment in staff training, changes to incentive schemes



Other 'Multi-Channel' changes that had a very positive impact on the in store customer experience include:

- Launch of the KNOWHOW service that provides customers with after-sales services based on:
 1. Delivery & Installation
 2. Product set up
 3. Product support
 4. Product repairs & protection
- A gradual alignment of overall pricing towards lower-priced online competitors including Amazon with a focus on best-selling lines. At the start of the programme the average price differential was 26%. This has now fallen to 6% on average and with parity on many best-selling lines.

Critical to this price alignment has been a major and ongoing cost reduction programme delivering £285m cost savings over the last 5 years and forecast to deliver an additional £90m over the next 2 years

As a result of these changes Dixons is now confident that it can make more profit in £ on a typical sale than a lower-cost online competitor... and not because it charges a higher price. The key is this ability to 'monetise the conversation' by seeking revenue streams not available to the likes of Amazon. Its well-trained store staff are able to sell higher-specification products, the accessories needed to support the product and after-sales support via KNOWHOW. And Dixons has generated a revenue stream from charging branded suppliers for display and demonstration of their products in store. This additional margin more than offsets Dixons higher costs of store staff, rent and other store-related costs. Recent results from this transformation have been encouraging. While other store-based competitors such as Comet have gone into administration, Dixons UK business has performed well. For the year to April 2013 UK sales were up by 7% Like-for-Like ("LFL") and for the 4th Quarter up by 13% LFL.

Perhaps most encouragingly one of its key non-financial metrics Customer Recommendations (as measured by the question "Very Likely to recommend [Dixons]" in store exit surveys) has seen a dramatic improvement over the last 2 years (from 43% at the end of 2010 to 75% by mid 2012). Quoting its CEO in its recent results announcement dated 16 May 2013:

"We have worked hard to improve the conversation that we have with our customers and to improve our shops and our prices...I believe we have a clear business model that allows us to flourish in an internet world."



Home Improvement Case Study: Home Depot²



- Online is a growing part of the business:
 1. ca 50% of sales involve online research at some point in the shopping process
 2. Almost one in every four store shoppers have previously been on homedepot.com before purchasing in store
- Its online strategy aims to support “the endless aisle”, making its relationships with customers stickier by using online capabilities to improve service and to support “interconnected retail.”
- Offers over 500,000 stock keeping units (SKUs) online, compared to approximately 35,000 SKUs at most stores.
- Key to a ‘sticky relationship’ is selling ‘projects’, not just ‘products’. Project management is seen as a major opportunity to build deeper relationships with customers. For some product groups (e.g. kitchens, doors & windows) Home Depot aims to provide “online know-how/in-store expertise.” These are complex projects that prospective buyers research online, but these projects almost always require professional assistance. Online, Home Depot is focused on providing know-how (project videos, guides, forums and so forth) and then, after doing online research, customers can schedule an appointment to meet with an in-store product expert.
- “Interconnected retail” is seen as the ability to provide a seamless shopping experience across multiple channels. This means being able to:
 1. tell an online customer that a product is in stock at a store in advance of a visit
 2. tell the exact in-store aisle location of products to online shoppers
 3. support buy online, return in store
 4. buy items online that are stocked in the local store and pick them up at the store
 5. buy items online that are not carried in stores and have them shipped to a nearby store.

Key questions for retailers to address:

- Are you clear on your overall company strategy? Who are your target customers and how does meeting their needs affect both your store and online proposition?
- Are you channel-‘agnostic’ or would you prefer to get your customers into your stores?
- Do you understand enough about the economics of your channels? If your online channels are low fixed cost/high variable cost and your stores are the reverse, what will happen to your P&L if business shifts rapidly from stores to online?
- How much do you need to be concerned by online-only competitors such as Amazon and if so how is it best to compete with them given your and their strengths and weaknesses?

Having answers to these questions should help inform your Multi-Channel strategy and inform follow on questions such as:

- What is the purpose of your website/online channels? Are they there to give your customers a convenient choice of channels to shop or is it mainly about providing information to encourage customers into stores?
- Do you want to be a ‘Leader’ or ‘Follower’ in Multi-Channel development?

How should you use your website?

What is your ranging strategy for your website?



While currently not everybody makes all of their store range available online, we think that as multi-channel develops, there are broadly two options:

1. The same range (i.e. everything) is available online and in store; this is the option selected by the retailers with relatively tight ranges i.e. those in Group 2 (see above) such as Screwfix and Toolstation. Wickes also adopt this policy with some minor exceptions stating on their website: "There are currently over 10,500 products available to order online at Wickes.co.uk, which represents practically all of our in-store range. In order to protect minors and ensure we comply with relevant legislation, we do not sell age-restricted products online". This option can be supplemented by offering additional ranges in specific categories via 3rd parties. These are usually via a link to another website with some form of co-branding. For example Screwfix offer this for wardrobes (www.screwfixwardrobes.com in partnership with Spaceslide) , bathrooms and appliances.
2. Your website is used as a channel to offer a larger range than is immediately available in store. This is the option usually selected by retailers in Group 1 above. The degree of additional range varies from a % increase (e.g. B&Q) to an online range that is many times the size of the largest in store range (e.g. The Home Depot and Lowe's)

As we describe later in the section on 'the changing role of stores in a Multi-Channel world' some of the larger retailers are looking to reduce the size of their larger stores. For retailers with large ranges that are likely to include both space hungry products (e.g. doors) and many slow-selling items Multi-Channel offers the opportunity to reduce in store range whilst still offering customers the full range via Home Delivery and Click & Collect services.

The % of a particular product range available in store vs online will vary based on different criteria such as space required, purchase frequency, purchase lead times (i.e. Kitchens and Bathrooms tend to be part of longer-term projects where the need for immediate availability is less important).

This option is also supplemented by offering additional ranges via 3rd parties. Examples of these range from spares and accessories (e.g. at B&Q and Homebase) to category-specific ranges (wallpaper, shutters, appliances, Grow Your Own seeds and sliding wardrobe doors at B&Q).

There are, of course, exceptions to these options. For example IKEA only offer 3,500+ products to purchase online vs an in store range of 11,000. This is understandable given the importance to the IKEA proposition of having customers browse in store.



Fact: Kingfisher have announced that B&Q's online offer will be upgraded in the coming year and will include an additional 20,000 products available for Home Delivery



Fact: Home Depot offer 500,000 sku's online but only 35,000 in most stores. As an example they quote an in store range of 200 faucets (taps) and an online range of over 11,000.



Fact: Lowe's 250,000 sku's online

Pricing & Promotions

Single pricing policy across all channels

In the past it was fairly common for retailers to operate different pricing for online vs in store. However, this is a rarity nowadays as it is becoming difficult to justify to consumers, especially with the advent of Click and Collect In store and the ease of checking the online price while in store via a smartphone.

The clear trend is for retailers to adopt a single price policy across all channels, even if they allow themselves some leeway. For example Homebase state: "online prices may vary from the comparable products in store", IKEA state: "Shop Online product prices will normally be the same as store prices. Occasionally, in-store promotions will mean some prices in store are temporarily lower" and Wickes state: "Yes [prices are the same], with the exception of promotional offers and exclusive online discounts, prices of products on the website match the in-store price."

If you offer a Price Promise/ Match policy should you extend it to online price comparisons?

Where retailers (such as B&Q, Homebase and Wickes) operate a Price Promise/Match policy the rise of the internet has provided a considerable challenge. Price Promises used to relate to competitor stores within a radius of the store where the product has been purchased. Online has made the ability to compare prices across numerous store-based and online-only retailers immeasurably easier and highlighted the usually lower prices of many online-only retailers. Wickes have maintained their original policy and are clear that their Price Promise "excludes prices and products advertised on the internet and in the catalogue". B&Q do not overtly refer to their Price Promise on their website. Homebase say that their Price Match excludes all online retailers and purchases from Homebase.co.uk



Non-Home Improvement example: John Lewis has developed its "Never Knowingly Undersold" policy to include the online prices of its Multi-Channel competitors. However it is explicit that it does not apply to prices of online only

retailers:

"We have shops, call centres and a website giving you flexibility in how and when you buy from us. The level of service we offer can't therefore be equalled by online or mail-order only retailers such as Amazon or Play.com - and it's for this reason we don't match their prices." Currys online price promise is competitor-specific (i.e. only vs John Lewis, Argos, Staples and Tesco)



Exc. & Inc. VAT pricing online

Retailers such as Screwfix and Toolstation that target the professional/ trade/contractor customer offer an easy facility when looking online to switch between prices that include or exclude VAT.

Promotions

Most homepages of retailers' websites feature heavily the latest promotions available. In addition to much of the top of the homepage used to display the latest promotions by season or by category, most websites have a tab at the top right hand side that leads to "Offers" or "Deals". Screwfix has 3 tabs for promotions: "Deal of the Day", "Clearance" and e.g. "Spring deals". This highlights some of the opportunities that the website can offer more flexibly than using one's stores: clearance of old stock and very short-term promotions.

For retailers that adopt a more Every Day Low Price ("EDLP") approach it is noticeable that the homepage is used for alternative purposes. IKEA's homepage has a focus on "Ideas and Inspiration" (see next page) and showcasing its different departments, with their occasional sales featured online when they are also run in store.

Easy product search

'Minimum clicks to order'

For customers visiting your site that wish to transact it is key to make their journey as quick and convenient as possible. Retailers are investing in a number of areas to improve their website functionality:

'Search' function: 'predictive search' which provides shoppers with suggestions based on what they have started to type is becoming more the norm. More basic search functionality risks customer frustration as they are more likely to be shown results that are not what they are looking for.

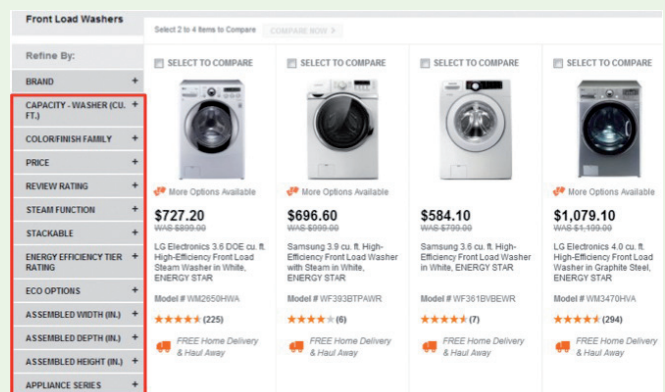
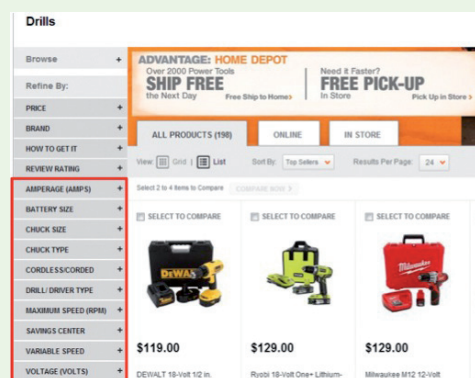
Deciding which products to show on the first page of a search result is also important e.g. showing best sellers that are in stock in the chosen product group. This can be a labour intensive activity for a retailer's online team but (especially in a sector such as Home Improvement where the product range is so large and diverse) should lead to increased conversion rates from search to sale.

'Search filters': the filters that allow customers to narrow down their product search is also evolving. 'Basic' filters include searching by price, brand, customer review rating, all of which are generic to all products. Most customers will want to search using other criteria that are specific to that particular product. This requires the retailer to have much greater insight into search criteria by product and to have a website that enables these search filters to vary by category.



Home Improvement example: The Home Depot offers this type of advanced search filters. For example a search for drills within the Power Tools category offers filters such as chuck size & type, cordless or corded, speed (RPM)

and power. In contrast a search for washing machines offers filters such as capacity, 3 size dimensions (height, width and depth), energy efficiency and whether it is stackable.



Product comparison facility: Some retailers (e.g. B&Q and Screwfix) offer a 'product comparison' facility allowing comparison of up to 4 products at a time. While this is a useful tool it does require there to be sufficient information on each product and displayed in a consistent format to enable a meaningful comparison

Other products for consideration: retailers also have the opportunity to show customers related products when they land on a specific product page. This has become fairly standard and usually shows either similar products (i.e. alternatives to the product being viewed, such as 'trade ups') and/or additional products that could be purchased together with the item being viewed. Given that many home improvement products are bought as part of a project, this presents retailers with a great opportunity to promote the 'project completers'.



Non-Home Improvement example: John Lewis offer four different boxes with suggested products under the headings:

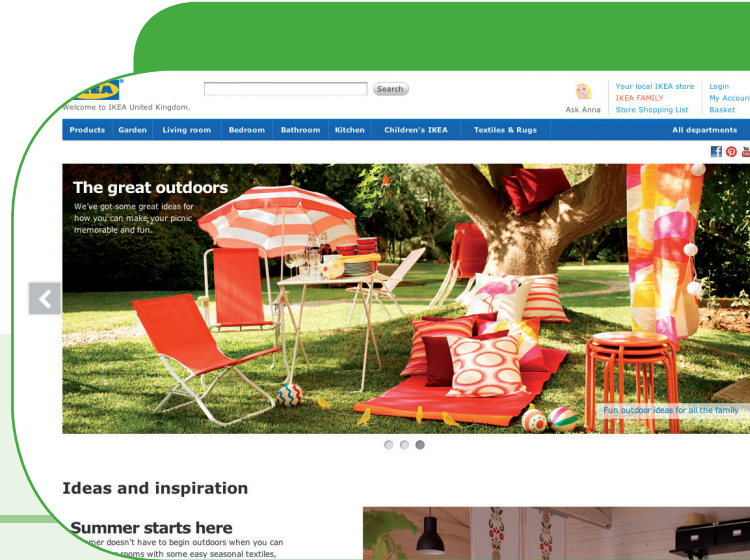
- 'Have you thought about' (the project add ons)
- 'Customers who viewed this also viewed'
- 'Customers who viewed this went on to buy'
- 'More [products] from this brand'

The website as a source of information, ideas & inspiration

Given the following statistics it is no surprise that information, ideas and inspiration play a key role in retailer websites (ideas and inspiration feature more heavily in the Group 1 retailers):

- 50% of sales at The Home Depot involve online research at some point
- 1/3 of Homebase customers browse online before they buy
- 82% of Dixons customers start their journey online and 94% spend some time in a store
- 70% of Carphone Warehouse customer journeys start online

What is offered	What is provided and is there any best practice
Store locator	<ul style="list-style-type: none"> • Universally offered via entering of Post Code or Town or selecting from a drop-down box listing all stores. • Usual information includes distance to nearest stores, opening hours, phone numbers, a map and a summary of the services offered at the store
Product information including comparisons, ratings & reviews	<ul style="list-style-type: none"> • 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 the information need a good understanding of how shoppers search and select for products as this will vary by category (see above comments on 'search filters') • The key is how to present this information so that it is easily comparable as it is typically gathered from suppliers using different information sources <p>Customer 'ratings & reviews'</p> <ul style="list-style-type: none"> • These have also become standard for all the UK Home Improvement retailers' websites. While every retailer offers this facility some embrace it more actively. For example in the Power Drills category, Amazon have 1,276 customer reviews, Screwfix 655 and B&Q only 80. • Screwfix also distinguishes between reviews by its DIY and Trade customers, promoting its trade credentials with a strapline "Trade ratings you can trust". • The other key question with reviews is the degree of 'moderation' i.e. how much censorship is applied to screen out inappropriate or negative reviews. • Best practice Non-Home Improvement: Kiddicare, a UK leader in the Babycare market that began life as an online retailer but that now has stores as well, adopts a very open approach to all reviews. It asks for feedback 5 days after purchase.



	<p>It believes that shoppers appreciate honest reviews and its willingness to publish negative reviews help build trust with its customers. In addition to publishing negative reviews, these are all responded to on an individual basis with the involvement of the CEO in some cases. Kiddicare have ca 250,000 reviews on its website.</p>
Measuring & Planning Tools	<ul style="list-style-type: none"> • Many Home Improvement retailers offer measuring and planning tools to aid their customers in their decision-making; these tools are offered more widely by the retailers in Group 1 (as their customers tend to need more help & advice) than those in Group 2 (whose customers tend to know what they want) • Measuring tools include calculators for the quantity of paint or tiles or rolls of wallpaper to decorate a room, floor or wall; these are often also available on retailers apps (see later section on Mobile) • Planning tools include 3D room planners for a Kitchen or Bathroom at B&Q and Homebase, a 'Create the look' decorating tool at Homebase and Storage and Wardrobe planners at IKEA
The Catalogue	<ul style="list-style-type: none"> • For retailers with a catalogue, this is usually available online either to view or to download
Brochures, Buying Guides, 'How to' Guides, Magazines, Photo Galleries, Paint cards, Colour & Style trends	<ul style="list-style-type: none"> • The retailers in Group 1 (B&Q, Homebase, IKEA) make extensive use of their websites to provide ideas and inspiration to their customers. As a result they allow customers to view online and/or download documents including category brochures, Buying and 'How To' project guides, photos, style and trend guides etc. See later also the section on Social Media and sharing scrapbooks on Pinterest • Home Improvement example: B&Q now offers some interactive, digital brochures such as its 2013 Garden brochure. This allows viewers to click on links and icons to provide additional images, relevant 'How To' & Buying guides, recipes and videos on its You Tube channel
You Tube TV channel	<ul style="list-style-type: none"> • All the major Home Improvement retailers have a TV channel on You Tube, although some have more content than others. This is a great medium for sharing 'how to' guides as well as programmes aimed at 'ideas & inspiration'. For example B&Q's 'You Can Do It' in store classes are available to view on YouTube and it has over 100 'How To' videos available. Screwfix features links to the You Tube channels of some of its key branded suppliers such as De Walt, Makita and Bosch.
Other examples	<ul style="list-style-type: none"> • IKEA have an "ask Anna our automated online Assistant" facility • Wickes allow visitors to their website to request a free colour card.

The Multi-Channel service proposition

Reserve & Collect/Click & Collect becoming essential

One of the key battlegrounds in Multi-Channel retail in the UK is the service offering shoppers the ability to reserve/order online and collect in store.



Non-Home Improvement Fact: Argos a leading UK General Merchandise Multi-Channel retailer stated that 31% of its total sales were made via its 'Check & Reserve' facility



Non-Home Improvement Fact: About 2/3 of **Tesco Direct** orders are collected in-store, with the number of Click & Collect locations now doubled (compared to a year ago) to more than 1,500.



Non-Home Improvement example: Department store chain **House of Fraser** report that 1 in every 4 customers using its 'Buy & Collect' service make an additional purchase when collecting their order

While this facility is not yet widely available around the world, it is likely to become a common facility as Multi-Channel grows in other markets. For example Kingfisher has stated that it will be trialling 'click & collect' in both **Castorama France** and its Turkey JV with **Koçtaş** in 2013/14. **Praxis** in Holland successfully launched 'click and reserve' earlier this year.

Question/ feature	Comments
Do the major UK and US Home Improvement retailers offer it?	<ul style="list-style-type: none"> UK: Most do e.g. B&Q, Homebase, Screwfix, Toolstation, but not all US: Offered by both Home Depot ("BOPIS") and Lowe's ("Buy it Here, Get it There")
Is it available on all products?	<ul style="list-style-type: none"> Group 1 retailers may exclude some products from this facility, Group 2 retailers offer it for all products
When does the customer pay?	<ul style="list-style-type: none"> B&Q and Homebase offer a 'Reserve & Collect' i.e. pay on collection in store Screwfix offer a 'Click & Collect' with payment taken online although there is a Chip & Pin validation on collection
How quickly are products available?	<ul style="list-style-type: none"> Within 2 hours (Home Depot), 3 hours (Homebase), next day (B&Q), 3 p.m. next day (Toolstation) Best practice Home Improvement: Screwfix products are available within 5 minutes of placing the order; if a product is Out Of Stock it is offered as a 'Collect Next Day' service

Question/ feature	Comments
Other best practice features available from Screwfix	<ul style="list-style-type: none"> Launch of mobile 'click, pay & collect'; 65% of orders placed on the mobile site use this service Allow a mix and match of online ordering some products for store pick up and others for delivery Hold the product for collection for up to 14 days

Best practice non-Home Improvement: Drive-thru Click & Collect has become the latest battleground in the UK grocery market. **Tesco** reported that it had over 140 locations offering this service at the end of 2012. Asda's first drive through was launched in April 2013.



Selfridges department store has just announced that it will offer this service in its flagship London store in 2014. The service includes 30 minutes free parking and allows shoppers to specify the date of collection within the following 7 days.

With the prevalence of 'Drive-Thru' building yards at Home Improvement retailers in continental Europe this could be easily applied in the Home Improvement sector. Although this type of service undoubtedly offers shoppers great convenience, the downside is that the shoppers do not need to enter the store, reducing the opportunities for additional sales. As such it may be of greater interest to the retailers in Group 2 than those in Group 1.

Ever more convenient Home Delivery options

The delivery propositions of the Home Improvement retailers are constantly evolving to provide customers with more choice in terms of timing and cost of delivery.

Best practice Home Improvement: **Screwfix**

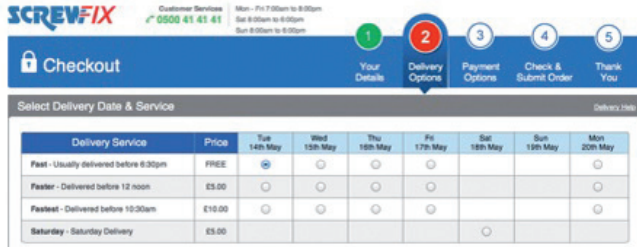
Below is a table from the Screwfix website setting out the multitude of options for Home Delivery:



Order by 7pm for Next day delivery
Order by 7pm Friday for Saturday delivery
Place an order for over £100 and qualify for FREE Saturday Delivery
Order by 2pm Sunday for Monday Delivery

Delivery Options Excluding Products Delivered Directly From our Suppliers			
Order Value	Under £50	£50 - £100	£100 +
FAST Usually NEXT DAY before 6.30pm (Standard)	£5	FREE	FREE
FASTER before 12noon (Premium)	£10	£5	£5
FASTEST before 10.30am (premium)	£15	£10	£10
SATURDAY	£10	£5	FREE
48 HOUR ZONE* Northern Ireland & Highlands	£5	FREE	FREE
OTHER ZONES* Usually within 4 days	£5	FREE	FREE

Customers can also choose an alternative to 'next day' by booking up to one week ahead:



Checkout

Select Delivery Date & Service

Delivery Service	Price	Tue 14th May	Wed 15th May	Thu 16th May	Fri 17th May	Sat 18th May	Sun 19th May	Mon 20th May
Fast - Usually delivered before 6.30pm	FREE	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Faster - Delivered before 12 noon	£5.00	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Fastest - Delivered before 10.30am	£10.00	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Saturday - Saturday Delivery	£5.00	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>

Below is a summary of the typical delivery policies of the main Home Improvement retailers. This excludes variations on their delivery policies for e.g. deliveries direct from suppliers and deliveries to remote geographical locations (which usually take longer and may incur higher delivery charges).

Feature	Typical proposition	Best practice
Can I get my delivery Next Day? How quickly can I get it Next Day? Will I have to pay for Next Day delivery?	<ul style="list-style-type: none"> A Next Day delivery option is becoming standard Some retailers (Screwfix, Toolstation) offer options to get products delivered before lunchtime Next Day 	<ul style="list-style-type: none"> Home Improvement: Screwfix allows customers to order up to 7 p.m. for next day delivery Home Improvement: Screwfix allows customers Faster (by 12) and Fastest (by 10.30) Next Day delivery options

Feature	Typical proposition	Best practice
	<ul style="list-style-type: none"> Some charge for this service regardless of order size (e.g. Homebase), most offer a free service subject to a minimum order size (e.g. Screwfix, B&Q, Wickes, Toolstation) Retailers are working to improve the cut off timing of when the order has to be placed by to qualify for next day delivery: currently this is usually between 5-6 p.m. 	<ul style="list-style-type: none"> Home Improvement: Toolstation offers a free next day delivery service for all orders over £10 Non-Home Improvement: Next (Fashion & Home retailer) allows customers to order up to 10 p.m. for next day delivery (cost £3.99) and up to midday for same day delivery (cost £6.99); Argos offers a delivery to home or office service within 90 minutes in selected areas (couriers collect the product from an Argos store)
Can I specify what time the product will arrive?	<ul style="list-style-type: none"> Retailers are working to introduce more flexibility in the timing of deliveries but in Home Improvement this remains limited compared to best practice 	<ul style="list-style-type: none"> Non Home Improvement: Most of the UK Grocers offer the facility to specify a delivery date and 1-2 hour time slot a few weeks in advance; Kiddicare: order by 8pm for free next day delivery for orders over £29.99 with delivery within a 1 hour slot in mainland UK
Can I specify the date of my delivery?	<ul style="list-style-type: none"> Some retailers also allow customers to specify the date they want to have their product delivered 	<ul style="list-style-type: none"> Home Improvement: Screwfix allows customers to specify a delivery date up to 7 days ahead; Homebase has stated that they will introduce this
Can I get a delivery on a Saturday?	<ul style="list-style-type: none"> Most Home Improvement retailers offer a Saturday delivery service All charge for this service (usually £5-£10) 	<ul style="list-style-type: none"> Home Improvement: Screwfix offers free delivery for orders over £100 Non Home Improvement: Next will also deliver on a Sunday for orders placed by 10 p.m. on the day before (cost £6.99)
Is there a free delivery option?	<ul style="list-style-type: none"> Most Home Improvement retailers offer a free delivery option but have a minimum order value, usually ca £50 	<ul style="list-style-type: none"> Home Improvement: Toolstation free Next Day delivery for orders >£10
Other features of delivery policies		<ul style="list-style-type: none"> Home Improvement: Screwfix allows customers to track online the progress of their delivery; IKEA also offers this facility

Other Multi-Channel services offered by retailers



- 'Quick order' facility: retailers with their full range in a catalogue such as Screwfix and Wickes offer customers a Quick Shop facility online; customers enter the catalogue #, quantity required and can then add these items with one click to their basket.
- Easy access to in store services: a number of retailers allow customers to access in store services from their website. This includes:
 1. Returns: in line with the trend towards offering a seamless Omni-Channel experience most Home Improvement retailers now offer the facility for customers to return products bought online to their nearest store; this no doubt has knock-on implications for their reverse logistics capabilities
 2. Booking appointments with Kitchen or Bathroom Designer (at B&Q, Homebase, Wickes)
 3. Book a 'You Can Do It' DIY class (at B&Q)
 4. Rent-a-van (at B&Q, IKEA)
 5. Book tool hire (at Wickes via its sister company Travis Perkins)
- Others services on offer by some Home Improvement retailers via their websites:
 1. Buy Vouchers (Homebase, Wickes), Gift Cards/eGift Cards (B&Q) for redemption in store (not online)
 2. Apply for a 'Trade' credit account (B&Q: consumer credit can only be applied for in store as is the case with Homebase)
 3. Apply for the Family Club loyalty card (IKEA)
 4. Create, donate to and manage a Wedding List (at B&Q)
 5. Links to 3rd party websites (e.g. rated.com, mybuilder.com, jobsorted.com) that help consumers find a contractor

Smartphones & tablets become the new focus

Media coverage of the UK retail industry is currently dominated by talk of the increasing importance of both smartphones and tablets:



- In the UK in 2013 64% adults own a smartphone and 29% a tablet
- The BRC-Google Online Retail Monitor reported that total retail searches from mobile and tablets were going up by 198% in 2013
- Sebastian James talked about Dixons having a 'tablet-tastic' Christmas in the UK in 2012
- The IMRG Capgemini e-Retail sales index stated that sales via mobile devices rose by 304% in 2012 vs 2011
- Screwfix claim that traffic on mobile is up over 300% year on year (vs web traffic increase of 40%) with 16% total traffic conducted on mobile and 10% on tablets.
- The advent of 4G technology will only serve to increase usage of mobile further
- Retailers are now talking about a 'mobile first' approach to development i.e. they plan new technology developments around the requirements of mobile devices first and then adapt the development for PC's/laptops. Others are developing platforms that automatically adapt for different screen sizes i.e. tablet, smartphone or desk/laptop.

What are the UK Home Improvement retailers doing?

All of the main Home Improvement retailers have a mobile-optimised version of their website. Many achieve this by running a 'scrape' version of their core website. This has the limitation that there are minimum changes to the user experience and it is a challenge to keep up to date as it is a very manual process. UK consumers now expect retailers to have their websites adapted for viewing on a smartphone device. Offering a payment option via PayPal is also advisable as this offers easy payment (id and password) when at check out on a mobile device. While the main difference is the size of the screen, retailers are looking to understand the different 'missions' (e.g. browsing, researching products, locating my nearest store) when shoppers use a PC, a tablet or a smartphone.

With the proliferation of different-sized devices (smartphone, blackberry, mini-tablet, tablet, laptop, desktop) to access the internet, retailers are now looking at investing in a single 'front end' solution with built-in device detection. This enables the retailer's website to be optimised automatically to the particular device the customer is using to access it. Thus a single development approach can be taken delivering the best customer experience possible, regardless of the size of the screen.

The other key aspect of retailers' approaches to the rise of smartphone usage is the development of apps.

- Most Home Improvement retailers have at least one app (and available for both iOS Apple and Android devices). This will usually enable shoppers to:
 1. Locate their nearest branch
 2. Shop online
 3. Browse products and prices
 4. View deals and offers
- Other features offered include:
 1. Check & Reserve, view product reviews (Homebase)
 2. How To Guides, You Tube videos, Calculators, QR Code Scanner, 'Place your products' (see how products would look in your home), Spirit Level and A-Z dictionary of Home Improvement terms (B&Q)
 3. Easily create a shopping list after browsing the catalogue (IKEA)
 4. Arrange and track a delivery (Wickes)
- Non UK retailer examples of features of apps include:
 1. Articles and advice for Projects and to 'Inspire Me' e.g. Colour trends, a 'Need help: chat now' facility (Masters in Australia)
 2. Voice-activated product search (Castorama France)

- Some retailers offer more than 1 app, the second aimed as part of their Loyalty schemes:



1. Home Improvement example: **B&Q** has a second app for their B&Q Club. According to a review of the app published by Econsultancy³ this second app was informed by the knowledge that 2/3 of their customers use their phones while in store. This allows members to scan their loyalty card number in at the till via their smartphone to qualify for special discounts and offers (e.g. regular multi-buys, seasonal offers, a monthly prize draw). While these offers are all designed to encourage members to visit their stores, it has been set up to be an Omni-Channel platform e.g. no physical cards have been issued and the app can interface with till scanners.



2. Home Improvement example: **Lowe's** offers an app for its MyLowe's card. Members scan in their card in store to automatically upload all their purchases to their 'my history' section. This includes useful information such as product dimensions, specific colour (e.g. of paint). Users can also manage their account at home online to create folders and lists to store other key information relating to their Home Improvement projects such as room dimensions.



3. Other retailers are considering event-based apps i.e. ones designed to be short-term to provide customers with information and interaction around a specific event they are supporting

Mobile developments continue apace and are likely to impact on how consumers will shop their Home Improvement stores. One example is the opportunity arising from developments in Near Field Communications (NFC). In addition to enabling mobile payments (eWallets), this could be used to enable easier location of departments (even individual products?), a useful application for Big-box stores.

Looking further ahead the development of wearable technologies such as Google's Glass will bring more information and applications to consumers while 'on the go'. IHS estimates that wearable-technology firms could sell up to 92.5 million devices worldwide by 2016. While it is not always easy to predict which technologies will take off what is clear is that the pace of change is increasing exponentially. As a result retailers should plan to build in flexibility into their any IT investment programme that will take several years to implement.



Non-Home Improvement example: **Walmart** in the US has trialled self-scanning via shoppers' smartphones. They provide a "Scan & Go" app. After scanning in all products, shoppers click to create a QR code and can then pay at a self-scanning checkout.

Social Media becoming a key marketing tool & community builder

British bank Barclays recently published a report⁵ stating that social commerce sales in the UK will double to over £3bn in the next 5 years and that by 2021 over 40% of UK consumers will be influenced by or use Social Media to research and then buy products.



One way retailers are looking at their Social Media strategy is to view it as another channel for communication with customers. This includes using Social Media channels as an invaluable and free source of customer insight. Some segment their approach based on the degree of control over content and branding that each medium provides:

1. Media the retailer owns: e.g. social 'hubs' or communities hosted on the retailer's website (see Screwfix and B&Q examples below) provide great opportunities for 2-way dialogue and rich feedback e.g. product ratings and reviews that the retailer can choose to moderate (or not). While the retailer has greater control over what is said, the risk is that too much moderation risks reducing trust in the feedback given (see Kiddicare example above of minimal moderation of ratings and reviews)
2. Media where the retailer has a visible (branded) presence e.g. Facebook page, Twitter feed, YouTube channel, Pinterest boards, Google + also provide opportunities for a 2-way dialogue where the retailer has less control and opportunities to moderate but where consumers naturally place a greater degree of trust
3. Media where the retailer has no visible/branded presence: the focus is on 'listening' as these are a great source of customer feedback and retailers are investing resource in monitoring what consumers are saying about them on the internet

facebook

- All the UK Home Improvement retailers have a Facebook page. These are used primarily as a marketing communications tool highlighting promotions, events, competitions, media campaigns as well as many of the sources of Ideas & Inspiration (see above) via links to How To guides, videos and photography
- B&Q offer an "Ask our experts" Home Improvement Helpdesk enabling visitors to their page to post questions about their projects and get advice
- Screwfix allow shoppers to 'Like' (on Facebook) specific products on their website
- While all the main retailers are present on Facebook other non-Home Improvement retailers are embracing Facebook in a much greater way and even making it one of the pillars of their marketing strategy:



Non-Home Improvement example: Fashion retailer **ASOS** views itself as much a content/journalistic business with content driven around lifestyle as a retailer. It invests heavily in Social Media with a major presence on

Facebook. Typically it posts content (including photos promoting new ranges, sales) several times a day and these posts generate many 'Likes' and comments. ASOS is good at responding to questions posted in comments to generate a two-way dialogue with its fans. Social Media is seen as a vehicle to engage customers, build the brand/sense of community and getting great customer feedback. As a result ASOS has ca. 2.4m 'Likes' (by comparison IKEA UK have ca. 250,000 and B&Q, Homebase and Screwfix all have ca. 50,000).



Non-Home Improvement example: Baby specialist **Kiddicare** uses Facebook rather than traditional advertising to promote new store openings.

Other social media sites



- **Twitter:** as with Facebook, Twitter has become an important Social Media channel and most have a Twitter feed to promote their latest news, events, articles and photos. While B&Q has the most followers (ca 22k) of the UK Home Improvement retailers, they still lag well behind ASOS that has just under 0.5m followers. ASOS, along with other retailers has multiple Twitter feeds: most are aimed at marketing (the core ASOS feed and ones for the USA, Menswear and its Marketplace) and the other aimed at customer care (ASOS Here to Help).



- **Pinterest** (pinboard-style photo-sharing website) has become another Social Media channel being used by the Home Improvement retailers that focus on ideas and inspiration, especially those targeting a more female audience (i.e. B&Q, Homebase, IKEA rather than Screwfix, Toolstation). Pinterest provides an opportunity to showcase their products around themes such as colour, style and rooms.

- **You Tube:** see comments on previous page
- **B&Q** has created a 'Social Hub' on its website that brings together all of its content on Facebook, Twitter and You Tube.

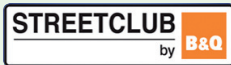
Having your own community site

Both B&Q and Screwfix have developed 'community' sites online but each with a different set of objectives:



Home Improvement example: **The Screwfix Community Forum** is a section of its site that allows customers to share expertise and ask for help as well as socialising online. Screwfix states that it has 63,000 members with

Screwfix only providing minimal moderation (e.g. removing abusive comments) and allowing the members to dictate the content and direction of the discussions.



Home Improvement example:
B&Q has created
Streetclub.co.uk a website

that allows local communities to collaborate. Members can 'Talk' (e.g. about local issues), 'Share' (e.g. tools for Home Improvement projects) and 'Plan' (e.g. local events or meetings). There are currently 1,109 local 'streetclubs' in the UK. Also interesting to note is that B&Q Voice its online community that had over 10,000 members was closed earlier this year.

So while it is clear that retailers need to embrace Social Media as a key marketing and communications channel this should be done with both a clear strategy and the resources to match. If budgets for Social Media are limited, this should then frame ambitions and expected results.

The changing role of stores in a Multi-Channel world



What is becoming clear is that stores still (and will continue to) have an essential role to play. This is especially true in the Home Improvement sector where advice and inspiration drive many consumer purchases (note earlier statistics about how shoppers often start their journeys online but then go into stores) and the bulky nature of many products challenge the economics of a 'home delivery-only' business model. But the role of stores is changing and retailers are starting to adapt their stores to meet changing consumer expectations.

Looking ahead ten years it is likely that the current typical Big-box Home Improvement store will either look very different to the ones today or risk becoming an expensive burden for retailers.

The role of a store: showroom or a collection point?

Assessing Kingfisher's strategy for its UK stores sheds some interesting light on these trends:



Home Improvement Case Study: Kingfisher UK

B&Q



- Currently has 358 medium and large stores
- Has a 'store rightsizing' programme e.g. successfully sub-let 50% of its Belvedere store to Asda/Walmart (sales densities rose by 88%); B&Q is actively looking at other similar opportunities and has recently announced two sub-lets with grocery chain Morrisons
- Ian Cheshire, Kingfisher CEO was quoted in 2013 as saying "If you started with a blank sheet of paper you could probably take the same amount of trade in 20% less stores"
- Kingfisher is not looking to add new stores to the B&Q portfolio
- New concept Big-box store (an existing B&Q Extra) in Poole has been reconfigured and places greater emphasis on a)



displays in key categories such as Kitchens, Bathrooms and Gardening and b) a dedicated Collections area for items ordered via its Reserve & Collect facility and for products (e.g. tiles, 'takeaway' kitchens) that used to be available on the shop floor (now similar to shopping at IKEA)

- New concept small store (an existing B&Q Supercentre) in Banbury has taken out much of the space dedicated to Showroom products, focussing more on 'Help and Advice' areas 'everyday' products and the ability to collect products not available in store (this is both for Showroom products for consumers and Trade products for professionals via its Trade Point collections area)

Screwfix



- Until 2005 had no stores at all
- Currently has 275 stores and Kingfisher has stated a target of 400. All of Kingfisher's UK investment in new space is via Screwfix (last year Kingfisher opened 70 stores worldwide, 60 of which were Screwfix; its forecast for the current year is 68 stores worldwide, of which 50 are Screwfix)
- Typical store size is relatively small at 400-700 m2
- Ca 2/3 of sales are made via its stores, either ordered in store or in advance via Click & Collect on PC's or mobiles
- Stores are configured for convenience with a dedicated collection point in store

In a similar vein to B&Q, **Wickes** also announced in late 2011 a rightsizing programme. The intention is to reduce space by 1/3 over 5 years by downsizing 100 of its 200 stores. It is looking to reduce average store size from 30,000 ft² to a 20-25,000 ft² footprint. This programme has included the sublet of half of a 60,000 ft² store to retailer The Range (with Wickes claiming it can get the same turnover from ½ the space) and the opening of a branch of sister-company Toolstation in its Wickes Extra (i.e. a large-format) store in Barking.

In contrast some formerly online-only retailers have been developing store portfolios of their own and not just as Collection/Pick up points:



Furniture market example: **Oak Furniture Land** began its existence as a seller on eBay in 2004. The business now trades from its own websites as well as on Amazon. Given the importance in the Furniture category of having a Showroom it began opening stores in 2010. It now has 40 stores and 65% of its sales come via its stores. Sales in the year to September 2012 were £83m (+144% vs prior year) and its operating margin was 11%.



Non-Home Improvement example: Baby specialist **Kiddicare** began life as an online-only retailer. It now has 9 supercentres. These stores have been designed for a Multi-Channel experience. Family-friendly features include a try-before-you-buy buggy test track, V.I.B. (Very Important Baby) personal shopping, free guest WiFi, healthy bites Kiddicare, play areas and more. The newer superstores even have community Event Rooms for mum and baby classes.

Other examples of store developments in Home Improvement:



Home Improvement supplier example: **Asian Paints** is India's largest paint manufacturer. It is not a retailer but has opened non-transactional showrooms in order to engage with its end consumers. Sales of its products have risen by 35% in surrounding retail stores (i.e. via its retail customers to end consumers). It has achieved this by making its 'stores' an opportunity to engage consumers in a digitally-enabled conversation in a showroom built around colour. Visitors are given a Colour Card



embedded with RFID technology that allows them to save ideas/colours. Advice and inspiration such as the latest colours are displayed on screens and customers can even 'change' the colour of the 'Colour Cloud' at the entrance to the store by stepping on coloured floor panels. Customers can talk to Colour Consultants and are given a personalised magazine 'mycolour' to take away, collating all their ideas and colours⁶.



Home Improvement example: **IKEA UK** has trialled 'pop up' shops in some London railway stations to promote its 'make more of your garden' campaign and to raise awareness of their range of outdoor solutions. Each small store features a selection of products from the IKEA garden range, allowing passersby to browse and buy products on their way to and from work. Vouchers were also handed out to commuters to encourage them to spend.

Reconfiguring the Multi-Channel Big-box store

Key changes that retailers are making include:

- Allocating space to a **dedicated collections area**: typically at the start of offering a Click & Collect service, products have been made available from the Customer Service desk. As this has become an increasingly important part of the offering retailers now have a dedicated collections area. B&Q Poole has such a space and includes a seating area with a TV for customers to wait; other large B&Q stores are also being reconfigured to have a dedicated Collections area



- **In store terminals** to access the internet: this has not yet occurred at UK Home Improvement retailers but is evident in other sectors



■ Non Home Improvement example: **John Lewis** has computer terminals in its department stores that allow customers to access the internet and has set www.johnlewis.com as the home page, encouraging shoppers to browse its website to access its full range

- **Free WiFi in store:** while only beginning to be offered in the Home Improvement sector (e.g. available in the new concept B&Q in Poole and revamped Homebase store in Ruislip) this is becoming more prevalent in other retail sectors (e.g. Grocers, Department stores, coffee shop chains) in response to consumer behaviour:

1. B&Q estimates that up to 2/3 of its customers use their phones in store³
2. Mobile advertising and data platform JiWire conducted a survey and found 94% of smartphone-empowered shoppers use their handsets in store, with 60% of these comparing prices⁷

On the basis that consumers will find a way to access the internet whether WiFi is offered or not some retailers are embracing it as an opportunity to a) build brand loyalty by offering a service and b) access rich consumer data by requesting information as part of the login process. Nevertheless retailers should be wary of requesting too much information and making the login process too complicated. By analyzing WiFi data retailers can gain a better understanding of what shoppers are doing in their stores. Free WiFi is sometimes linked to loyalty schemes:

1. **Tesco** offer free WiFi access in its Extra stores to its Clubcard holders
2. **Costa Coffee** offer unlimited WiFi access to loyalty card holders but only 30 minutes to other customers

- **QR codes:** QR codes at the Point of Sale offer an opportunity for both retailers and suppliers to provide much richer information to shoppers than can be done on a shelf-edge label or more traditional Point of Sale material. QR codes have been more actively embraced by Home Improvement suppliers than the retailers (some use at Homebase e.g. the lawnmower range to access the product information on their website). **Dixons** on the other hand is looking to go one step further and provide QR codes that link to price comparison websites, although this has not yet been implemented.

This is part of its strategy to build trust and 'earn the conversation' (see above case study). Clearly this requires highly competitive pricing vs online retailers, though not necessarily the cheapest every time but within an acceptable (ca. 3%?) price premium before it can be implemented.

- **Customer reviews:** showing customer reviews at the shelf, via low tech solutions such as printing a rating (e.g. 5 star) on the shelf edge label, or higher tech options such as QR codes, electronic shelf edge labels etc

Other changes to how your stores are run

- **Staff training, selection and technology:** referencing the Dixons case study if retailers want to first 'earn' and then 'monetise the conversation' the quality of interaction between store staff and customers is critical. Dixons has made a huge investment in staff training in terms of both product/service knowledge and customer service. And it is not just training existing staff but also in recruiting new store staff with a natural ability to engage consumers in meaningful conversations. Some (non Home Improvement) retailers (e.g. department stores John Lewis and Debenhams) are investing in tablets/iPads for their sales staff, allowing them to access richer product data, check stock availability and process orders. It is worth noting that customers can now access ever more information and so retailers need to be equipping their staff with the training and technology to stay ahead of their customers.



Non-Home Improvement example: Apple store staff are renowned for excellent customer service, based on their enthusiasm and knowledge. In the book "The Apple Experience: Secrets to Building Insanely Great Customer Loyalty" Carmine Gallo talks about how Apple 'hire for smiles' and is less interested in how much a candidate knows than how much they care about the customer and how passionate they are about the company and its products⁸.

"The [Apple Store] staff isn't focused on selling stuff. It's focused on building relationships and trying to make people's lives better"

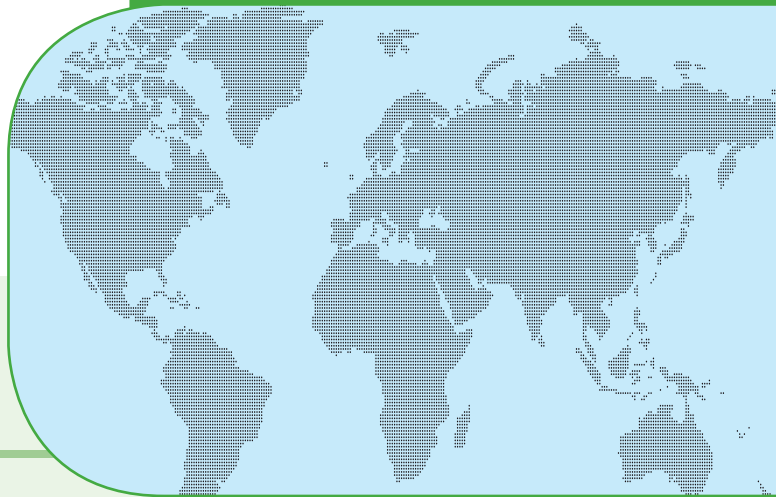
(Ron Johnson, former Apple Senior VP Retail)

- **Incentives and sales recognition:** in order to ensure that store staff are focused on providing the best customer experience regardless of channel, retailers have had to look at how sales are recognised across channels and how they incentivise their store staff:

1. Sales recognition: both **John Lewis** and **Dixons** now allocate sales made online to each store, based on an analysis of post codes.
2. Sales incentives: **Dixons** have reconfigured their staff sales incentives away from a commission on selling extended warranties as this was contrary to the new focus on building trust with consumers. Staff are now incentivised on sales (including online sales from postcodes within their store catchment) and customer service.

Using Multi-Channel to expand internationally

Many UK retailers outside of the Home Improvement sector are seeing their online activities as a channel to unlock growth opportunities outside the markets in which they have stores.



IMRG estimate that £7.4bn was spent on UK websites by non-UK based customers (roughly 10% of the amount spent by UK shoppers on UK websites) and they forecast that this will grow to £10bn in 2013.



Non-Home Improvement example: Fashion retailer **ASOS** now ships to over 190 countries, has 7 versions of its website and accepts 15 currencies. It is the 2nd most visited fashion website in the world. This commitment to tailoring its offering to its international customers helped it to report recently that 65% of its sales came from outside the UK.



Non-Home Improvement example: Bike retailer **Wiggle.co.uk** has its website available in 10 languages, prices in 15 currencies and ships to over 100 countries. Over 50% of its sales emanate from outside the UK.



Non-Home Improvement example: Fashion and Home retailer **Next** delivers to over 60 countries; international sales in 2012 rose to £54m and are forecast to grow to £70m in 2013. It has recently stated that it will no longer open company-owned stores overseas, favouring investing in more profitable online expansion instead.

So far the UK Home Improvement retailers have not fully embraced the international opportunity but there are signs that this is beginning.



Home Improvement example: As a result of significant numbers of visits to its website from non-UK visitors, **Screwfix** now delivers to over 20 European countries and has a separate European version of its website. Delivery is free for orders over £100 (£20 charge for orders less than £100) and is made within 5-7 working days. At this stage pricing remains in £.

Implications for retailers: key questions

- Is 'online-only' international an expansion opportunity? If so how committed do you want to be?

1. From opportunistic i.e. deliver overseas but site not adapted for international customers...a low cost but probably low-return option
2. To strategic i.e. multi-language/multi-currency and country-specific sites and with a likely investment requirement in local online and offline marketing; to fully exploit the international opportunities retailers will be expected to have local language/currency sites and so should plan accordingly in terms of resource allocation (both people and financial in terms of IT and marketing investment)

- How does online fit into a Multi-Channel international strategy?

1. Could it be an alternative to having stores overseas (e.g. see Next example above)?
2. Could it be a way to trial international sales before committing to the fixed costs of opening a store?

Conclusions

A number of conclusions emerge from this review:



1. If you were to start with a blank sheet of paper you would not start here...

- 'Big-box' Home Improvement retailers have a bigger challenge to adapt to this changing world than online (or those with catalogue origins) retailers that now have a Multi-Channel proposition. Typically these Big-box retailers have:

- A high fixed cost base with too many and too large stores that need extensive reconfiguration as well as 'rightsizing'
- Legacy systems that have evolved over time and that cannot easily be adapted for an Omni-Channel world where customers can transact seamless across multiple channels
- Supply chains based on a relatively simple, one-way flow of goods from DC's to stores
- Organisation structures and processes driven by a store-based operating model

- In contrast retailers such as Screwfix tend to have systems and processes that can be adapted more easily for an Omni-Channel world that includes growing their store portfolios in a low-cost, flexible way

- Nevertheless Big-box retailers in both Home Improvement and non- Home Improvement sectors are responding and a picture of the adapted store proposition is emerging

2. Some retailers are choosing to embrace this new world, leading the way in their sector and shaping consumers expectations; others prefer to adopt a more cautious, gradual response adapting their propositions once consumer expectations have changed...both approaches have their merits

- These decisions tend to be driven by a combination of their current position and also their size.
 - Current position: retailers in Group 2 have both an inherent advantage and interest in driving their Multi-Channel developments more quickly
 - Size: the scale of investment required in new systems and store reconfigurations for retailers in Group 1 make it easier for the larger chains to move more quickly e.g. B&Q's size and backing of parent company Kingfisher make a 'Leader' strategy an easier decision. It can also leverage Screwfix expertise and systems in developing the B&Q Multi-Channel offer, then deploy solutions in other countries as Multi-Channel retail develops.

3. Home Improvement retailers need to look beyond their sector and geographic borders

- Learning from other sectors:

1. The Home Improvement sector is more a 'laggard' than a 'leader' in the adoption of Multi-Channel best practice...

2. ...but consumers' expectations of Home Improvement retailers are being shaped by their experiences across retail sectors e.g. the ever more flexible order, collection and delivery options available from UK grocers and department stores are gradually being adopted by the UK Home Improvement retailers

- Looking beyond geographic borders:

1. The UK and USA are more advanced when it comes to Multi-Channel and lessons can be learnt from how they have tackled these opportunities and challenges; for example it is interesting to speculate whether B&Q would have more than doubled its square footage between 2000 and 2006 (increasing the number of Big-box Warehouses from 48 to 114) knowing what it knows now, having embarked on its 'rightsizing' strategy
2. 'Best practice' is not limited to these two markets with learnings available from all around the world

4. Winners in the future will tend to have many of the following characteristics:

- Low/flexible cost base
- Competitive pricing (not necessarily the cheapest)
- Channel agnostic – whatever is most convenient for the customer
- Genuinely customer centric with a single view of the customer (i.e. the proposition is not hindered by systems and store-centric legacies)
- Stores designed to support the strategy, be they convenient collection points or showrooms
- Great product with a element of innovation, exclusivity/ uniqueness and customization/personalisation
- A Social Media presence that creates and supports 'raving fans'

5. The pace of change is accelerating

- Developments in technology are progressing quickly and the pace is accelerating. It is difficult to predict trends and to second-guess the future. Retailers need to take a 'fast fail' approach to trials, use agile development methods and move faster than they have been historically capable of. This will require new ways of working, new capabilities and a different mindset. For example Morrisons launched the morrisonscellar.com online wine store in 12 weeks from inception to 'go live'.

So what should retailers be looking to do as the Multi-Channel wave hits their markets?

■ **Strategy:** start with a clear, overall strategy and tailor the Multi-Channel strategy accordingly:

1. Approach to channels: store-centric or channel-agnostic
2. Store proposition: collection points, showrooms, a combination of both; single format or multi-format from Big-box destination stores to temporary 'pop ups'
3. Ranging strategy: everything available in store or broader range available online even if it can be collected later in store
4. Pricing: internet transparency means you have to be competitive; strategy for Own Brands and exclusive products to mitigate impact of price comparisons
5. Cost to serve: ruthless control of costs will be critical as well as a good understanding of the economics (including changes between fixed and variable costs) of your business as it shifts between channels
6. Pick a clear strategy rather than try and be all things to all customers...good strategies include being able to articulate what you are not going to do; focus on investing in things your customers will notice
7. Above all embrace Multi-Channel holistically rather than adding services such as Click & Collect on a piecemeal basis. A holistic approach will enable you to reengineer your business rather than just add costs with limited benefits, thus undermining your profitability. Benefits of the reengineering could be fewer, smaller stores, less stock in the supply chain, lower staff costs in store. An Omni-Channel Supply Chain is likely to look very different to one designed to ship products to stores alongside a standalone Home Delivery capability

■ **Stores:** For retailers with large store portfolios of Big-box stores, develop a store transformation programme to include:

1. How many (probably less) and how big (probably smaller) stores (note learnings from B&Q and Wickes 'rightsizing' programmes)
2. A redefined role(s) for stores that are less 'average' and more 'remarkable' and that is less concerned about transacting with the customer than building brand engagement; an emphasis on the store as a Showroom (displays, inspiration, advice, customer interaction, space for customers to plan/design/personalise) and/or a 'convenient place to transact' (ease of ordering, payment and collection in store or 'drive-through' of the full range even if not immediately available)
3. Technology-enabled store staff recruited and trained to be experts and 'ambassadors' of your brand and incentivised regardless of which channel receives the sale

■ **IT budget:** Review and probably reshape the investment/capital expenditure so that new stores take a smaller share and IT/technology a larger share:



Home Improvement example: In 2007/08 Kingfisher allocated 48% of its capex budget to 'New Stores and Relocations' and 18% to 'IT, Supply Chain & other'. In 2012/13 40% went on new stores, 25% on IT/Supply Chain and an additional 8% on 'Omni-Channel retailing'

Other considerations:

1. Think Tablet and Smartphone first and then desk/laptop. Alternatively consider developing a platform with built-in device detection that responds to multiple screen sizes/devices rather than have to 'optimise' each new development for each device.
2. Build in flexibility and agility because with the rapid pace of change, the goalposts are likely to have moved before your next big IT investment has been implemented.
3. A seamless Omni-Channel experience is likely to require a Single View of the Customer (SVC) but with legacy systems this may be an expensive solution. It is essential to know what you want from the data before investing in this capability. Screwfix has invested in systems that enable SVC. As a result it has a single customer log in and so can recognise its customers regardless of the channel. This provides rich opportunities to personalise its interaction with customers.
4. Along with SVC there is a lot of coverage about 'Big Data' (defined in Wikipedia as "a collection of data sets so large and complex that it becomes difficult to process using on-hand database management tools or traditional data processing applications"). We won't go into this here other than to say we like the move to coverage of 'Good Data' i.e. data that can be usefully and economically applied

■ **People & Organisation:** Review how you are organised. Is your operating model and organisation structure driven around a store-based or multi (but not 'omni' i.e. integrated) view of the world.

1. Where does Digital/ Multi-Channel report? How is it represented on the Board?
2. Recruiting, retaining and developing (the scarce resource of) employees with Multi-Channel skills should be a priority
3. Is there a separate Digital/Multi-Channel team? How does it interact with the traditional functions of Buying, Marketing, Stores and Supply Chain? As customers move seamlessly across channels in a single transaction (the move from 'multi' to 'omni' channel) the need for a 'joined up' organisational approach becomes more critical. Do your buyers start with a range for stores or do they think about a Multi-Channel range first and then work back to the store range?
4. What new roles do you need to create to accelerate your Multi-Channel capabilities? In late 2012 B&Q announced a reduction of 220 roles in its Head Office; at the same time it announced the creation of 100 new roles 'to create a more customer focused, agile and Omni-Channel retailer'. New roles include e.g. a Digital Merchandiser with the responsibility 'to create a world-class customer experience within all customer-facing digital interfaces'
5. How are your staff being incentivised and developing the skills to embrace being a Multi-Channel retailer? The degree of culture change should not be underestimated.
6. Who is in charge of your data...some businesses are creating a new role Chief Data Officer

Are you ready for 'showrooming' i.e. when customers come into your store for advice and ideas and then transact online with someone else often a lower-cost internet-only retailer?

No simple solutions but strategies to combat this include:

- Products: unique/exclusive/latest products plus a portfolio of Own Brands to differentiate yourself
- Competitive prices: 'loyal' (i.e. not all, but certainly the more valuable) customers will pay a 'small' premium. The size of the premium will vary based on e.g. transaction value, how much they need the product immediately NB likely to require an accompanying cost reduction plan to fund an investment in lower prices
- Well trained and engaging staff to provide advice
- Technology enabled stores that make it easy for customers to access all the information (including competitor prices) on the internet
- Services that online-only retailers find harder to compete on: immediate availability, easy returns and after-sales service

About MDJ² Associates:

Established in 2005, we are retail and change management consultants who have all had lengthy careers within the UK and international Home Improvement sector. We have held senior roles at B&Q and Kingfisher as well as with suppliers to all the major Home Improvement retailers. We have worked with a number of leading Home Improvement retailers and suppliers and completed Home Improvement assignments in the UK, Germany, Russia, Belgium and the Middle East. One of our Directors has published a case study "You Can Do It When You B&Q It" in conjunction with Manchester Business School. See www.mdj2.co.uk for more details. You can follow us on Twitter [@MDJ2Retail](https://twitter.com/MDJ2Retail) for retail insights and photos.

Contact us on info@mdj2.co.uk if you are interested in discussing these findings in more detail.

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Retailer specific data and analysis from their websites, mobile apps, Annual Reports, Investor Presentations and Press Releases. Photos of Currys and PC World stores reprinted with permission from Dixons Retail plc.



Strategy

DIY

Multi-Channel

Home

Online

Improvement

Customer

Website

Lowes

Return

Retailers

App

Facebook

Facebook

DIY.com

WiFi

Opportunity

Advice

Products

UK

SocialMedia

Information
Customers

Colleagues
Range

Proposition

Homedel

Wickes

Tablet

Price

Dixons