

FOCUS WICKES: INITIAL SUBMISSION

Full Text with Excisions

May 2004.

1. SUMMARY

- 1.1. Since 29 January 2003 Focus Wickes Group Ltd has been the holding company of a group ("Focus Wickes") which retails goods in a sector of the UK Building Repair, Maintenance and Improvement market. The group has two divisions known as "Wickes" and "Focus". Wickes appeals to serious DIY customers who carry out more complex projects and tradesmen who undertake general repairs. Focus targets customers who want gardening products and who undertake "light" home improvement, decorating and general maintenance.

- 1.2. The Focus division considers it important to the attractiveness of its goods offering that it is able to offer consumer credit, the terms of which need to be perceived as not out of line with those generally available in the DIY sector of the retail market. It has chosen to offer the credit in conjunction with a card mainly because the customer can then make a second or subsequent purchase on credit without having to complete an application form for credit for each purchase. The Wickes division offers a store card (the "Focus Wickes Trade Card") in only one of its stores and then only to tradesmen. It does so as a result of a 2001 decision made at a time when the Focus division anticipated opening a series of "warehouse" stores in each of which the Trade Card would be available. Only one warehouse (now trading under the Wickes brand) has been opened since the 2001 decision. At present the Trade Card is not actively promoted and there are no plans to introduce the card into any other Wickes stores. The Wickes division sees no advantage in offering store cards, preferring to rely on other forms of consumer credit provided by independent third parties.

Both our store cards (the Focus Account Card and the Focus Wickes Trade Card) are provided by third party credit providers. So far as we are aware, the %APR rate for the Focus Account Card is not bettered by any of our direct competitors. For the position concerning the Trade Card, please see below.

[Excised]

The Focus Account Card is a deferred payment card in the sense that it is the customer's election whether he pays the balance in full by the end of the interest-free period or takes advantage of a further period of credit during which interest accrues. The Trade Card simply allows

a period of interest-free credit at the end of which the entire balance is due and payable.

[Excised]

2. COMPANY

2.1. Organisation

The Focus Wickes group is the second largest UK do-it-yourself ("DIY") retailer in terms of turnover. Through its Focus and Wickes branded stores, it offers an extensive range of home improvement products to both DIY and trade customers.

Following a number of acquisitions in 1998 and 2000, as at 25 April 2004, the group operated 258 Focus stores and 171 Wickes stores, with a total of approximately 13.2 million square feet of net selling space (including 2.2 million square feet of outdoor selling space).

For Financial Year 2003, the group's turnover, exclusive of VAT, was £1,664 million.

2.2. History

In 1987, Bill Archer, our Chairman and Chief Executive Officer, and a former business partner acquired Choice DIY Limited, a small DIY retailer with six stores in the Midlands and the North of England. This was followed by the acquisition of the Focus chain of six DIY stores in 1988. Following this acquisition, all stores in the Group were re-branded "Focus DIY".

Between 1988 and 1998, the group had substantial organic growth, expanding from a base of 12 stores to 72 stores. Subsequently, in view of the changing dynamics of the UK DIY Market, the group increased its size and scale in order to compete more effectively with larger, national DIY retailers. As a result, it substantially expanded its national presence in 1998 by acquiring Do It All (Holdings) Limited which, at the time, was the United Kingdom's fourth largest DIY chain in terms of turnover with 139 stores. Following this acquisition, stores were re-branded as "Focus Do It All" ("FDIA") and the group became one of the largest DIY retailers in the United Kingdom with 210 stores.

In September 2000, the group expanded into the heavy DIY segment through the acquisition of Wickes plc which, at the time, was the third largest retailer in the UK DIY market in terms of turnover with 131 stores. Wickes has a long trading history in the UK DIY Market with its first store opening in 1972.

In December 2000, the group further strengthened its position in the light DIY segment by acquiring the business of Great Mills which was then the United Kingdom's fourth largest DIY retailer in terms of turnover with 98 stores. The Great Mills business was geographically complementary to the FDIA business, with minimal store overlap and a similar strategy of locating stores in market towns.

Since these acquisitions all of the former FDIA and Great Mills stores (excluding eight "No Frills" discount stores) have been re-branded to the "Focus" brand name.

2.3. Financial Structure

The group is controlled by Duke Street Capital, (which has supported the group since 1988) and Apax Partners, (who invested approximately £120m in January 2003 and now own 27.1% of the ordinary shares). Directors and senior employees also have significant interests in the Group. A large proportion of the group's capitalisation takes the form of senior bank lending, mezzanine notes listed in Luxembourg and shareholder loans (Report & Accounts for the holding company for the period ended 26 October 2003 were provided to the CC).

2.4 Principal Activities

The group aims to be the leading provider of home improvement products to retail customers and trade professionals in the United Kingdom. Its key objective for its Focus business is to be the store of choice and convenience for DIY and gardening products in each of its local markets and to improve the quality of the store portfolio. Its principal strategy for Wickes is to expand the number of stores in the target markets.

The stores operate under two leading brands, Focus and Wickes, each with distinct offerings appealing to different customer bases. This dual brand strategy is unique in the UK DIY Market and enables the group to target more effectively the broader spectrum of customers in the UK RMI (Repair, Maintenance, Improvement) Market. The key features of each division are summarised below.

The Focus stores target DIY customers seeking to undertake light home improvement and maintenance projects. Focus stores have an average of approximately 26,400 square feet (excluding garden centres) of net internal selling space and offer between 15,000 and 20,000 stock-keeping units or "SKUs". The majority of Focus stores have outdoor selling areas allocated to gardening products, covering an average of 9,100 square feet. The group's belief is that the convenient locations of the Focus stores, coupled with a competitively priced, broad product range, make them attractive to their local customer bases. A significant portion of the Focus stores

are located in market towns, where catchments are considered too small to justify a further outlet.

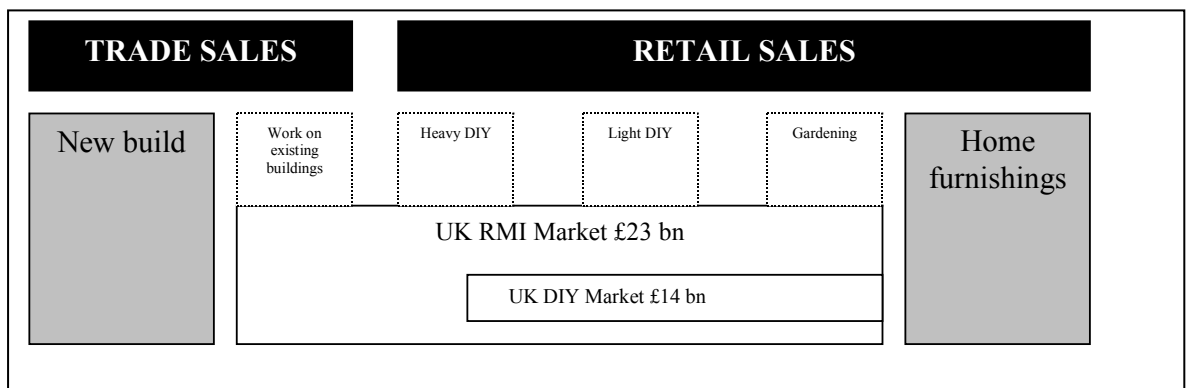
The Wickes stores target both serious DIY customers and tradesmen. Wickes stores, with an average of approximately 24,900 square feet of net selling space (including outdoor selling space), offer up to 5,500 SKUs (excluding showroom products) of core DIY products, over 98% of which are Wickes branded products, as well as a range of kitchens, conservatories, bathrooms and bedrooms, which are referred to as showroom products. The group's belief is that these own brand products have a reputation for delivering value for money and have established Wickes as a leading brand in the UK RMI Market. It further believes that Wickes stores are attractive to its target group of customers because of the high availability of products, knowledgeable customer service personnel, fast checkout service and opening hours that are generally longer than the those of the builders' merchants (Wickes' principal competitors for sales to tradesmen).

3. RELEVANT MARKETS

3.1. UK

3.1.a. The Repair, Maintenance, Improvement (RMI) Market

The group operates in the UK RMI Market. Although estimates of market size differ, based on its interpretation of available industry research, the group believes that the UK RMI Market accounted for annual turnover of approximately £23 billion in 2002. The UK RMI Market includes DIY and gardening sales (collectively, the "UK DIY Market"), as well as sales of home improvement products to trade professionals. The group's competitors in the UK RMI Market are principally B&Q, Homebase, the builders' merchants - Travis Perkins, Jewson and Wolseley - and, in the showroom area, retailers such as MFI and IKEA. The UK DIY Market can be further divided into three main sub-segments: "heavy" DIY, "light" DIY and gardening. The following chart provides an overview of the principal segments of the UK RMI Market:



The market is highly competitive and characterised by competition with respect to, among other things, price, store location, customer service, depth of merchandise and name and brand recognition.

Verdict Research (a UK retail analysis and consultancy group) estimated that the UK DIY Market accounted for over £14 billion in sales in 2002. Heavy DIY includes products such as bricks, sand and cement. The Light DIY sector includes "core" DIY products such as timber, lighting and bathroom products; decorative products such as paint, wall-coverings and wood-care; and DIY power tools such as drills, sanders and saws. Verdict estimates that products in heavy and light DIY accounted for approximately 76% of sales, and gardening products, including garden furniture, garden hand and power tools, and garden stock and requisites, such as plants, fertilisers and seeds, accounted for approximately 24% of sales, in the UK DIY Market in 2001, according to the most recent data available. The group estimates that the trade sector of the UK RMI Market, which comprises sales of home improvement products to trade customers, accounted for approximately £9 billion in sales in 2002. The sale of products for new build projects is not included within the definition of the UK RMI Market.

The UK DIY Market is led by three retailers, Focus Wickes, B&Q and Homebase, which, according to Verdict, collectively accounted for approximately half of the sales of the market in 2002, with the remainder of the UK DIY Market comprised of a large number of smaller independent DIY retailers or non-specialist retailers. In addition, with respect to some products, the group competes with builders' merchants, discount stores, local, regional and national hardware stores, mail order firms, independent building supply stores and, to a lesser extent, other non-specialist retailers. With respect to gardening products, the group also competes with garden centre chains, such as Wyevale; and with respect to trade and heavy DIY products, with builders' merchants such as Travis Perkins, Jewson and Wolseley. Finally, one of the key trends in the UK RMI Market has been the diversification of traditional DIY retailers, including Focus Wickes, into non-traditional DIY areas, such as home furnishings and homewares. As a result, the group also competes against retailers such as MFI and IKEA with respect to these products.

3.1.b. 'DIY' Products

The Focus range currently comprises between 15,000 and 20,000 SKUs covering both nationally recognised brands as well as own brand products. The product range includes decorative products (such as paint and wall coverings), core DIY products (such as timber and tools) and gardening products (such as plants and lawnmowers) as well as furniture, bathrooms and kitchens.

Wickes stores offer a targeted range of home improvement products, as well as a range of kitchens, conservatories, bathrooms and bedrooms, which are offered through in-store showrooms.

3.1.c. 'Store Card' products

Focus Wickes offers two Store Card products (where "Store Card" is as defined in the OFT Terms of Reference document of 18 March 2003).

The "Focus Account Card" is a re-launch, in October 2003, of a previous similar product and is available in all Focus stores except the eight which are branded "No Frills" where an identical variant product is in operation under the "No Frills Account Card" brand-name.

The Focus Account Card is a deferred payment card provided by a third party which handles the whole of the interface with the customer from receipt of the completed form of application. Focus pays a commission to the third party. **[Excised]**

At its warehouse store in Glasgow, Wickes offers a "Focus Wickes Trade Card" which is provided and operated by an independent contractor **[name excised]**. The Glasgow warehouse was originally envisaged as the first of several and it was thought necessary to offer a 60 day credit facility to small trader-customers. In fact, no further warehouse stores have yet been opened and there has not been as big a demand for the card in the Glasgow store as once expected. Whilst the card is still available, it is not currently actively promoted. **[Excised]** Throughout the Wickes estate the available consumer credit is provided by an independent contractor **[name excised]** otherwise than through store cards. **[Excised]**.

3.1.d. Store Card Sales as Proportion of Total Group Sales [Excised]

3.2. The EC

All of the Company's activities relate to UK retail operations.

3.3. Other International Markets

All of the Company's activities relate to UK retail operations.

4. COMPETITION WITHIN THESE MARKETS

4.1. Focus Wickes Share of the RMI Market

As mentioned in the RMI market section above, there is no consistent definition of this market, but taking our estimated figures we had a market share of approximately 6.9% in 2002. Verdict estimates that we have 10.7% of the DIY Market.

4.2. Focus Wickes Share of the RMI Store Card Market

Focus does not have competitor sales information relating to Store Cards so we are unable to calculate or estimate a share of the market. The relatively low-key marketing of the two Focus Wickes Store Cards would suggest that the group's share is most probably lower than the company share of the total RMI market.

4.3. Customers / Suppliers & Contractual Relationships

The relationship with the provider of the Focus store card **[name excised]** dates from late 1992. There is no written contract and no understanding as to term or exclusivity.

The relationship between Focus Wickes and the Trade Card provider **[name excised]** was signed in November 2002 and can be terminated on short notice.

The majority of Focus Wickes' key competitors market some form of Store Card and our information (summarised below) suggests that the APR Rates of Focus Wickes' Store Cards are either better, or in line with, direct retail competitors.

Competitor APR Rates	% APR Rates*
'Focus Account Card' & 'No Frills Account Card'	25.9%
Homebase Card	25.9%
B&Q "You Can Do It Card"	26.8%
Argos Card	25.9%
IKEA Card	26.8%

*All competitor rates taken from corporate websites on 22 April 2004.

4.4. Barriers to Entry

The barriers to retailer entry to the Store Card market by engaging a third party credit provider are perceived to be relatively low. The key barriers are:-

- The card provider's fee.
- The cost of in-store technical infrastructure, such as swipe machines.
- Marketing costs in-store with Point of Sale advertising benefits, and external marketing.

- Employee time in software development.

The group has no information on which to base any comments upon barriers to entry for new providers of credit. Self evidently, for a retailer to itself provide the credit it must have access to sufficient funds.

4.5. Ease of switching for Retailers

The group's only experience of switching is of switching the Trade Card to a credit provider **[name excised]** at the end of 2002 from a self-funded scheme administered by a contractor. That was not difficult but, given the low card numbers, is considered atypical and no guide to what would be involved in switching provider of the Focus Account Card **[name excised]**. However, perceived (fairly low) barriers are :-

- The cost of employee time in systems infrastructure.
- Marketing costs in-store with Point of Sale advertising benefits, and external marketing.
- Loss of access to the database for marketing purposes if the credit provider 'owns' the rights to the customer data.
- Customer Satisfaction – by terminating an agreement with a supplier each Customers card becomes invalid.

4.6. Level of prices and variety and quality of products

Since Store Cards being such a small proportion of the Focus Wickes business, the subject has received little attention. **[Excised]**.

We have not been out to tender in recent years so we have no basis on which to make a rational assessment of competitors' rates.

4.7. Information available to customers

Written materials were supplied to the CC.

4.8. Profitability, capital structure and financing

The whole of the Focus Wickes Store Card offering is provided by third party credit providers. The group incurs running costs (advertising, staff time etc) and pays the provider commission.

The question for the group (which it is very difficult, if not impossible to answer) is whether the availability of cards increases turnover sufficiently to justify the costs. In 2003, store card transactions were

obviously less profitable than normal cash and credit card sales because of the commission payable. There were also more associated costs including marketing, infrastructure and the costs of delay of payment processing with funds taking a few days longer to arrive due to their passage through the clearing process. These extra costs are justified on the basis that incremental sales are generated by the provision of this service to our customers.