

A year ago, we published our report on the UK DIY market looking at recent developments in the market and concluded that there was not enough growth to go around. We highlighted an “£800m challenge”, the gap between estimates of market growth from 2016-2018 and our analysis of retailers’ sales targets based on plans for new stores and other growth initiatives.

A year on, let’s take a look at what has happened in the last 12 months.

### Market growth

Consensus forecasts for market growth between 2016-2018 were 2-2.5% and were made before the Brexit vote shortly after we published our report. For the remainder of 2016 the market appeared to shrug off any negative consequences of the vote, perhaps because the consequences of Brexit will depend on the actual deal negotiated, which remains at least a year or more away.

The immediate impact has been on the British Pound which fell significantly against the Euro and the US Dollar (down by over 10% vs pre the Brexit vote). With so many DIY products either sourced directly overseas or using raw materials sourced from overseas, the weak £ has created inflationary pressures. Once hedged currency reserves were used up (in late 2016 for most), consumers have been faced with rising prices. Travis Perkins Q1 results (January - March) reported “Price inflation (+2.6%) was recorded in all Divisions” and Kingfisher’s Q1 results (February – April) for the UK reported “modest price inflation”. More generally the UK Consumer Price Index has increased to 2.6% in April (up from 2.3% in March). So while there may be some ‘value’ growth in the DIY market, any growth in volumes (i.e. units sold) is likely to be much lower.



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### Sharp drop in UK retail sales blamed on higher prices

Weaker pound pushes up cost of goods across range of sectors in March

Other economic indicators have also turned more negative with a decline in GfK’s Consumer Confidence Barometer and slower growth in UK GDP in Q1 (0.2% vs 0.7% in Q4 2016). Despite positive growth in retail sales in April (attributed to a late Easter), the BRC reported “looking to the longer-term signs of a slowdown, the outlook isn’t as rosy”, adding that food categories are outperforming non-food (i.e. DIY) ones. Both Topps Tiles and Magnet Kitchens talked about ‘macro-economic uncertainty’ contributing to poor 2017 performance so far. The Centre for Retail Research, in a note in January 2017, reduced its forecast for retail sales in 2017 from +1.9% to +1.6% (and for 2018 from +1.7% to +1.2%). One market that appears to be resilient is the Garden Centre market. Aided by good weather and the strength of the ‘grey pound’ (older shoppers), current indications are that ‘peak season’ trading this spring has been good.

So, in summary, compared with a year ago, market conditions are likely to be tougher.



## The big 3 DIY retailers

2016 was a year of significant change for 2 of the 'big 3' with Kingfisher announcing its ONE Kingfisher programme and Bunnings acquiring the Homebase business.

### B&Q

B&Q is undergoing fundamental change even if this is not yet visible to many of its customers. The start of the creation of a unified product offer across Kingfisher's retail formats (with parallels to IKEA's approach to 'global' ranging) has begun. It reported that 4% of its COGS ("Cost of Goods Sold") had been unified during 2016 (8% by its year-end) and it has a target of 20% for 2017. What is interesting is that the aims of the programme are not just to reduce prices of products. Kingfisher is aiming for new products of higher quality, that are more sustainable, better merchandised and in better packaging. 2017 has seen the launch of its first unique ranges, starting with outdoor and bathroom ranges, supported with its first international marketing campaign "#StartSomethingNew". Creating a better, unique and not just lower cost offer will take time but if Kingfisher manages to execute this, will justify the ambitious scale of change that is touching all aspects of the organisation.



Having completed its store closure programme (65 stores closed over the last 2 years), B&Q has also begun to trial changes to its Big Box format, as part of a Kingfisher-wide programme to roll out Big Box best practice stores. Alongside similar concepts in France, Poland and Russia, B&Q has revamped the first stores to the new concept. On a smaller scale B&Q has also trialled other innovative formats such as a High Street store in London (Holloway Road) and a 'pop up' Garden media and consumer showcase in London's Soho Square.



Q1 results were disappointing (sales fell by 4.6%; like-for-like "LFL" sales were up by 0.5% but this was positively impacted by ca 2.5% of sales transference from the 35 stores closed during 2016). This was partly attributed to 'some business disruption given the volume of change', highlighting the 'significant executional risk' of the change programme that we identified in our report last year.

Bunnings moved quickly to take control of Homebase and start the transition to the Bunnings brand introducing a Warehouse format that (in their own words) “combines the essential local elements with the best of Bunnings to build [a] new business”.

To date two stores (both in St Albans) have been converted and it has committed to further openings in the coming months in Milton Keynes and Folkestone (which is a former B&Q store). Bunnings recently said that it would have at least 10 stores in the Bunnings format by year end, but also stated that success of these trials is a precursor to further investment. We published a report in February on our visit to Bunnings first store that is available to download from our website [www.mdj2.co.uk/publications](http://www.mdj2.co.uk/publications). In summary, we were impressed with the store but think that the investment in capex, stock, staff and lower pricing will require a material uplift in sales to make the economics work.



More generally, Bunnings has been busy transforming the existing Homebase business. Highlights include exiting non-core ranges (soft furnishings and indoor furniture), strengthening ranges in core home improvement & garden and a significant investment in both stock (Bunnings report £130m) and price to reposition the business to “Always Low Prices”. The ongoing price surveys by Insight DIY using their iGarden30 and iPaint30 baskets of best-selling items (see <http://www.insightdiy.co.uk/price-baskets.htm>) show Bunnings consistently winning on price. This move to an EDLP (Every Day Low Prices) approach is a far cry from the High/Low pricing adopted by Homebase under HRG ownership.

Wesfarmers announced results for its UK business makes it hard to make direct comparisons with prior Homebase performance. For the 9 months to the end of March, Bunnings UK & Ireland reported sales of £851m and a 6.9% increase in customer participation (measured by transactions). The closest comparison we could find is HRG’s reported sales of £995m for Homebase for the 9 months from June 2015 to February 2016 (i.e. 9 months trading for both periods but the Homebase number has a ‘peak’ month of June included vs Bunnings ‘non-peak’ March). Bunnings has cited the negative impact of repositioning Homebase Kitchen & Bathroom offer, as well as the switch to its “always low prices”. Its exit from Homewares products (e.g. cushions, mirrors) will also have impacted on sales. In the 3 months to March 2017 customer participation only grew by 2.2%.

Bunnings has recently appointed David Haydon (whose former roles include time at both B&Q and Wickes) as Homebase Trading & Commercial Manager to run the Homebase business. As Bunnings UK & Ireland MD PJ Davis stated “As the pilot activity accelerates, it is still important that we remain focused on delivering a strong performance across Homebase”. As the business transitions to the Bunnings brand, maximising the sales and profit from the remaining Homebase estate will not be easy.

Wickes is continuing with its transformation. Parent company Travis Perkins has said that Wickes is one of its businesses that has been 'earmarked for investment' (Toolstation is another – see below). It has stepped up its revamp programme, refitting a further 46 stores to the new concept (62 stores now have the new concept). A big focus for Wickes has been to improve its Kitchens and Bathrooms offers, an area where it has had considerable success in growing its market share. More generally, it is aiming to simplify the shopping experience, recognising the importance of time for its trade customers.



Wickes also opened 7 new stores in 2016. Other developments include improvements to its click & collect and home delivery propositions as well as further investments in price and promotions. Its results in 2016 continued to impress. Travis Perkins do not report Wickes numbers specifically but it is the major part of its Consumer Division (that also includes Toolstation). In 2016 sales increased by 9.5% with like-for-like sales increasing by 6.4%. Profit grew by 6.3%. It also reported strong market share gains. The performance has continued into 2017 with Q1 sales up by 4.4% (2.9% LFL on a 1 year basis and 10.4% on a 2 year basis), despite the later Easter not being included in these numbers.

### The 'catalogue' retailers – Screwfix and Toolstation

**Screwfix** continues to storm ahead, consistently reporting sales growth of over 20% vs the prior year and is on target to exceed £1.5bn in sales in 2017. Growth has come from adding branches (60 added in 2016) and it now has over 500 branches. Its double-digit LFL growth (12.6% in Q1 2017) is impressive, supported by both organic growth and the year 2 & 3 'maturity' effect of new branches becoming more established. Its confidence in its growth potential is evident as Kingfisher has again increased its target number of Screwfix branches in the UK, from 600 to 700.



## Screwfix (continued)

It is not resting on its laurels at all and was awarded the Retail Week Award for 'Customer Experience Initiative of the Year' for its 'Simply Better Service' initiative, which drives constant customer service improvements across all channels including in store, over the phone and online. Screwfix website now says 'Collect in store in as little as 1 minute', compared with its previous commitment to a 5 minute click & collect facility. In 2016 it reported growth of 60% in click and collect and 124% in mobile transactions. In addition to its UK expansion, Screwfix added 10 branches in Germany in 2016.

While a lot smaller than Screwfix, Travis Perkins subsidiary and Wickes sister company **Toolstation** continues to make progress. It added a further 36 branches in the UK (in addition to 7 more in The Netherlands), bringing the total in the UK to over 270. It has significantly improved its 'click and collect' proposition so that it says products are now available within 20 minutes. In addition to reporting market share gains, Toolstation retained in 2017 its award by Consumer Group Which? as 'Retailer of the Year'.

## Others

Of the value/discount retailers that we highlighted last year the one that stands out with continued progress is **B&M**. It recently announced growth in sales for the year to March 2017 of 19.4% to £2.4bn, with UK LFL's +3.1% (up from 0.9% in 2016). As with Screwfix, B&M has announced that it is increasing its target number of stores in the UK from 850+ to 'at least 950'. In the year to March it opened 53 new stores, including 9 relocations to purpose-built stores that deliver higher sales. It has increased its store footprint in the UK by 44% since its IPO in 2014 and is targeting the south of England where it is currently underrepresented. B&M Founder and CEO Bobby Arora said in the recent results "The structural shift towards value retailing, in which B&M has emerged as a UK leader, still has a long way to run, irrespective of the economic climate".



**The Range** is continuing to add new stores and now has 140 (up from 90 in 2014), including stores in high streets and shopping centres, in addition to its core Retail Park estate. It recently announced Nigel Oddy, formerly CEO of department store chain House of Fraser, as CEO to work alongside Founder and Owner Chris Dawson. This prompted some speculation that the business could be floated or sold. Either way, it reflects the need to strike a balance between maintaining its entrepreneurial culture and recognising that it is now a business of some scale.

Another retailer that is expanding is **IKEA** which has announced 3 new stores (Sheffield, Exeter and Greenwich) by the end of 2018, creating 1,300 jobs. It is also developing new formats with its Order & Collection Point stores. The latest version (4th in total) was opened in the Westfield Centre in Stratford, London. Wren continues to add Kitchen Showrooms (62 currently vs 54 we reported last year, with another 4 listed as opening later this year). But it has dropped its trial of Bathroom Showrooms.

## Others (continued)

A key development in the Garden Centre sector last summer was the sale for £217m by Tesco of **Dobbies**. It was acquired by Midlothian Capital Partners and Hattington Capital, who stated at the time their intention to “add many, many more stores” to the 35 store chain, which are predominantly in Scotland and the North of England. Dobbies has recently appointed Garden Centre veteran and ex-Wyevale CEO Nicholas Marshall to become its CEO and there has even been press speculation that Dobbies may try to acquire the much larger (150+ stores) Wyevale chain.

### Tesco sells Dobbies Garden Centres for £217m

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## Digital/Omni-Channel developments

Unsurprisingly, investing in digital and omni-channel (which we define as “the ability to transact across multiple channels in the same transaction”) capabilities continues to be a focus for all retailers.

As Toolstation competes most directly with Screwfix, it has improved its Click & Collect proposition from 1 hour to 20 minutes...and Screwfix (as reported above) has moved from a 5 minute proposition to ‘in as little as a minute’.

As part of Kingfisher’s “Driving our digital capability” priority, B&Q is investing in its core e-commerce platform, and Kingfisher has said it will launch a new company-wide mobile platform in 2017. B&Q reported that digital sales increased by 45% in 2016.

Wickes continues to invest, adding facilities such as 1-hour time slots for home deliveries and same day delivery on up to 7,000 products. It is also investing in a new connected multichannel IT platform stating “We chose OneView Commerce based on their ability to deliver on our cross-channel strategy with a single in-store solution that provides one comprehensive view of the customer journey, including online activity and purchasing history”. Wickes reported online sales of over £100m in 2016.

Bunnings UK has said that it will launch a transactional website, something that it does not have in its home Australian market. As it focusses more on developing the Bunnings proposition, we note that Homebase’ Reserve & Collect proposition is now “within 24 hours” (was 1 hour a year ago). This looks like a step backwards, with Wickes offering a 1 hour service. B&Q’s current offer is “order before 7pm, collect from 1pm the next day”.

## Digital/Omni-Channel developments (continued)

In the Garden Centre sector (which has, so far, not been at the forefront of digital developments) Dobbies has announced a 5 year partnership with Ocado to upgrade its online offer and launch nationwide delivery. Orders will be fulfilled by Ocado's Speciality Stores General Merchandise warehouse. Wyevale has also launched its new website that has a transactional capability for the first time. Online retailer Crocus has said it believes that online can become 25-30% of the market. But Crocus has also just announced the acquisition of its first physical store, reinforcing the view of the value of an omni-channel approach.

As reported last year Amazon continues to expand its offer in DIY & Tools at a rapid rate. It now offers 606,583 skus directly from Amazon.co.uk (i.e. excluding Amazon Marketplace) vs the 379,642 that we reported a year ago. There were 32,451 new items listed in the last 90 days (vs 12,781 a year ago). Last year we reported on the rise of the online platforms such as houzz and manomano. Manomano announced UK sales of £4.4m in its first year, with a target of £10m in 2017 and £85m by 2019...still a relatively small player in the market, but nevertheless one that is adding to the competitive environment.

## Conclusions

Last year, we highlighted an "£800m challenge" which was the difference between market forecasts for growth between 2016-2018 and estimates of each retailer's growth plans based on announced increases in store numbers, self-help initiatives and continuing above market like-for-like growth. A year later we stand by this conclusion. If anything, growth forecasts for the market have been lowered slightly and retailers in expansion mode continue to add more stores and even increase their target number of stores. And the pressure on margins will continue through a combination of pressure on prices from the weak £ and continued price competition.

Current 'winners' are Screwfix and both Travis Perkins' main consumer brands Wickes and Toolstation. This highlights the benefits of strategies that target a focussed set of customer segments and then deliver a proposition that really meets (or even exceeds) their needs, as opposed to the more broad brush approach of the Big Box stores targeting a wider set of customer segments with more diverse needs. But as we report above, the Big Box stores of B&Q and Bunnings are not standing still, so we are following their developments with interest.

It certainly won't be dull in UK DIY for the foreseeable future!

## About the authors

Established in 2005 mdj2 associates ([www.mdj2.co.uk](http://www.mdj2.co.uk)) is a consultancy that works with clients in the retail and consumer sectors. Our overall proposition is 'we help you get more done', bringing expertise and focus to a broad range of strategic and improvement projects. All the mdj2 team have had lengthy careers at retailers and suppliers within the international Home Improvement and Garden Centre sectors, including senior roles at Kingfisher and B&Q. We have completed Home Improvement sector consultancy assignments for retailers, suppliers and investors in the UK, Germany, Belgium, Russia, Ireland 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. We have published White Papers on Multi-Channel retailing in the Home Improvement Sector (2013), the UK Garden Centre Sector (2014) and the UK DIY sector (2016) that are available to download for free from our website.

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