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why big is no longer beautiful

Policy reversal Wounded by the recession and hurt by bad weather, the UK's DIY giants are fighting back, says *David Thame*. They are hoping to win customers through a new strategy – the smaller store

Britain's bank holiday weekend weather is notoriously unreliable. Unbroken sunshine on Friday can often mean rain, hail or snow on Saturday, Sunday and Monday.

This May, nobody is watching the weather forecasts more keenly than the bosses of Britain's big DIY chains – because the two bank holidays could make or break their plans for a revolution in their business model.

The idea is simple: boost turnover by moving into smaller units in market towns. This is a stark reversal of the belief that big is beautiful – the approach that has dominated DIY retailing for the best part of a decade.

In 2004, B&Q opened its largest UK store at Manchester's Trafford Park. The 168,000 sq ft unit was about three times the size of Manchester United's pitch. Today, B&Q is among the retailers thought to be sniffing out locations for stores of just 20,000-25,000 sq ft.

With the housing market staging a tentative recovery – and credit-crunched householders returning to DIY after years when many preferred to pay tradesmen instead – hopes are high that the new strategy could win new customers for the DIY giants.

Already, research suggests that the DIY market has grown by 3% in the past 12 months – a trend the big retailers are anxious to encourage.

Rob Cane, out-of-town retail partner at King Sturge, says the appeal of smaller store formats is strong: "The DIY retailers have adapted their requirements to suit market conditions, seeking stores of 20,000-25,000 sq ft in smaller market towns." The smaller store is easier to deliver in terms of site availability and planning, he adds.

"Retailers are feeling their way back into the market," says Cane. "Wickes and Homebase have been looking for a while, researching new areas, and we hear B&Q has been scouting, too. They are all looking for around 25,000 sq ft, perhaps less if they can install a mezzanine. Stores

Tooling up: the DIY giants are hoping to target a new type of customer by opening smaller stores

TOOLS/APPLE TREE: REX FEATURES

IT NEVER RAINS BUT IT POURS...

The sun may have come out at last, but the weather has not been kind to DIY bosses this year, with snow in January and February keeping many shoppers at home.

Home Retail Group, owner of the Homebase chain, blamed the icy conditions for slow trading which saw sales fall by 0.6% – a disappointing drop on the thin performance of a recession-wracked 2008-09. Even so, the group said it expected pretax profits to reach £290m, exceeding expectations.

Easter was also disappointing in many areas. Research carried out for B&Q showed the average householder was planning to spend 15 hours gardening and fixing the house during the Easter break. And after the long hard winter, there was plenty to be done.

But in many places, temperatures plunged to levels last seen in the winter, and the weekend began with snow in Scotland, the North, and in much of Wales and the West. Where it didn't snow, it rained.

Results from Carpetright created a chill pre-Easter trading mood. A profits warning wiped 11% off the company's market value amid fears that a double-dip into recession could see the DIY sector back in trouble.

However, DIY bosses will be cheered by separate research from Homebase which shows that indoor tasks provided plenty of reasons for people to drive to a DIY superstore, not least the incompetence of many home-improvement enthusiasts. The research shows than one in 10 women admitted having had a "disaster" while attempting to paint and decorate.

WHO HAS WHAT?

Despite a 6% drop in its occupied floorspace, B&Q remains the UK's largest out-of-town retailer, with a total of 7.41m sq ft in its portfolio.

Homebase is in second place, according to research by Trevor Wood Associates. The chain grew by 4% between 2008 and 2009 to reach a total of 5.52m sq ft.

Carpetright, which is often regarded as a bellwether for the DIY and home improvement sectors, comes in fifth with 3.1m sq ft.

Focus DIY is the UK's 12th largest occupier of out-of-town floorspace with 1.92m sq ft. Wickes is close behind on 1.67m sq ft.

WICKES...

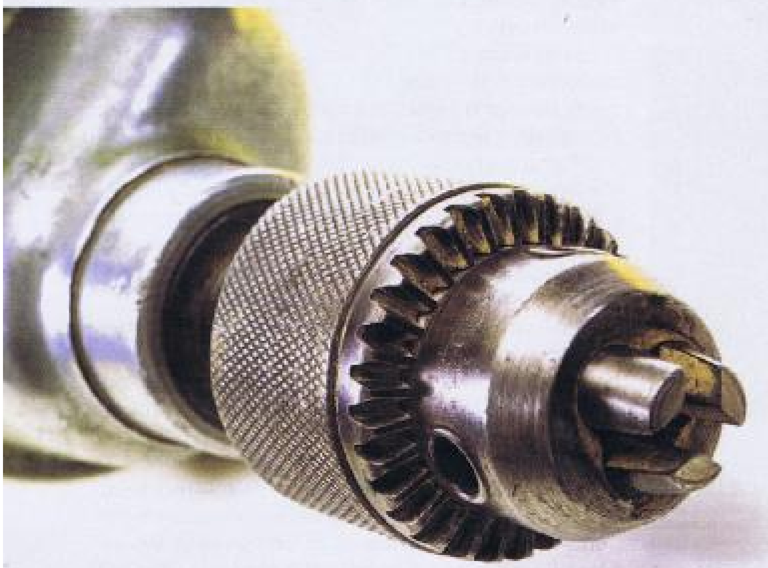
Until recently, the typical daytime customer at Wickes was more likely to be wearing steel toe-capped boots than the comfy leisurewear that dominates other DIY retailers. The firm's core customer group has long been builders. Wickes was where you went for copper piping, and probably not for mood lighting and lawn feed.

Now all that is beginning to change. Wickes is breaking into the kitchen and bathroom market, hoping to mop up some of the trade left by the mid-recession collapse of MFI, and plans to introduce standalone kitchen and bathroom stores. The company is also looking for new locations as it bids to grow its 190-strong chain. Last month, chief executive Geoff Cooper told *EG Retail*: "We should be at 350 [units] but the market doesn't really allow for that."

Just before Easter, Wickes' parent company, builders' merchant Travis Perkins, which acquired the chain in February 2005, reported an 11% fall in profits – from £202.5m to £180m. It said trading conditions in 2009 were "the most difficult in the group's history".

The company continued its brownfield expansion at Tile Giant in 2009, where new stores enjoyed a good cash payback, and it also pressed ahead with the ToolStation fascia.

Announcing the figures, Cooper said: "Having managed effectively through the recession, the group's strategy is to focus on organic growth in this low-growth environment. Our stable and experienced management team has a proven track record of driving organic growth in these market conditions."



of this size open up a different market in locations with lower rents and, perhaps, more scope for profit."

The biggest question mark hangs over Focus DIY. The once-troubled chain has also been eyeing smaller stores. The 250-store fascia was sold to private equity firm Cerebus in 2007 for just £1, a deal that reflected the company's £170m of debt.

Today, former Wickes director Bill Grimsey is at the helm, and many see him as the man likely to lead Focus out of the gloom. The firm has already struck its own line by refusing the take part in the price war now gripping its competitors.

Focus is not the only DIY retailer with reasons to be careful – and to seek new income streams. Regearing its existing portfolio of larger stores while expanding into smaller ones is an option that appeals to B&Q.

This spring, B&Q and British Land signed new, 20-year leases on a portfolio of seven large Warehouse stores, which British Land had acquired from B&Q in a sale-and-leaseback deal in 2005.

The portfolio, which encompasses stores as far apart as Exeter and Glasgow, also includes a further new lease on B&Q's Mini Warehouse at Cwmbran, Wales. Under the lease terms, B&Q's passing rent will have a one-off cut of 10%.

B&Q director of property Iain Small says: "This regear is in line with our company-wide policy to reduce costs across the business. We are pleased to have achieved an immediate 10% rent reduction across seven key trading stores totalling around 700,000 sq ft."

Martin Supple of Cushman & Wakefield, which represented B&Q, adds: "This regear deal is a 'win-win' solution for both parties. It shows that opportunities exist for landlords to sit down with key tenants and find innovative ways to help them reduce costs, while enhancing their own capital asset values by increasing lease security and liquidity."

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