HI NEWS
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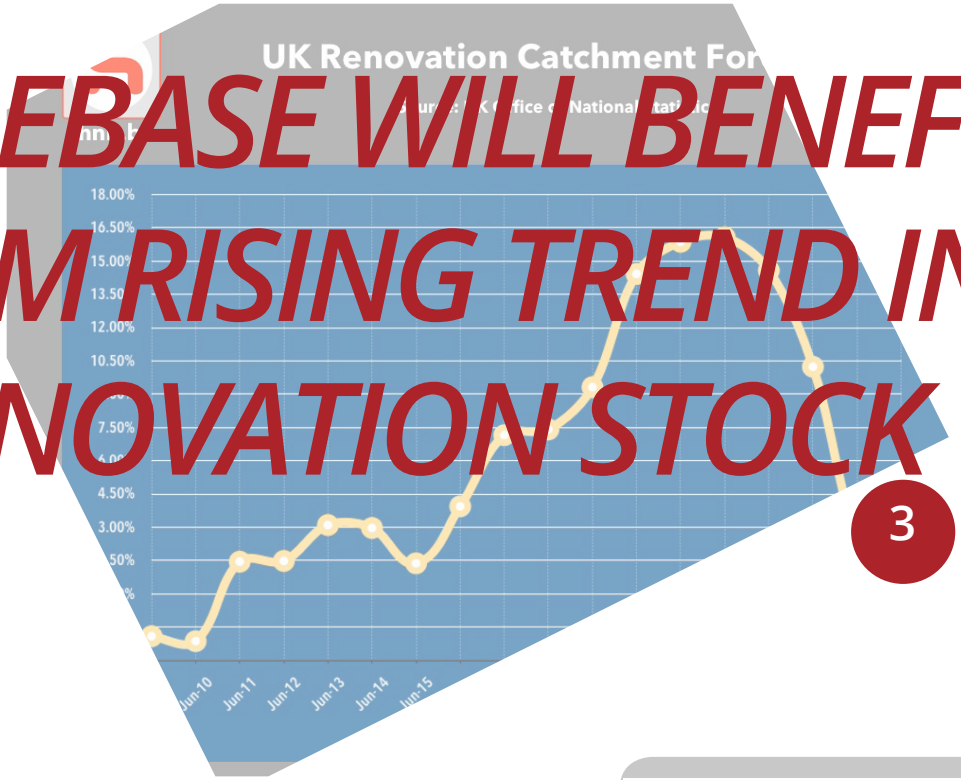
BUNNINGS ACQUIRES HOMEBASE

KINGFISHER CAPITAL MARKETS DAY • **WOOLWORTHS SHUTS MASTERS** • RIGID STEALTH FORCE OIL-PULSE DRIVER • **MASTERS EXITS DEVELOPMENTS** •

HOMEBASE WILL BENEFIT FROM RISING TREND IN RENOVATION STOCK



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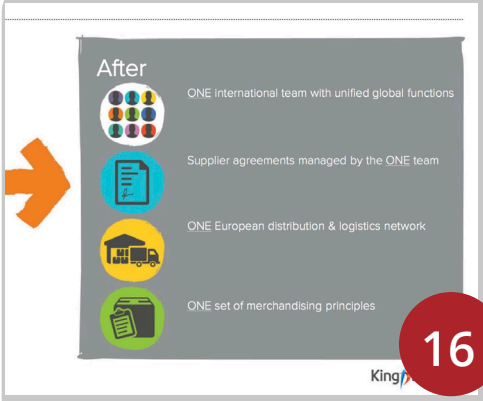

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Wesfarmers/Bunnings Acquires Homebase

Difficult transformation, but future market growth

Wesfarmers has offered GBP340 million (around $705 million) for the Homebase home improvement retail operations of the UK-based Home Retail Group. The offer is highly likely to be accepted by Home Retail Group's shareholders, with the transfer taking place in early April 2016. Homebase will be managed by the Bunnings team at Wesfarmers. After an initial period of operating Homebase as Homebase, there will be a rollout of a Bunnings-branded retailer in the UK, using the retail real estate currently operated by Homebase.

As part of these changes, Michael Schneider has been promoted to be in charge of the operations of Bunnings in Australia, as managing director. Peter ("PJ") Davis has been promoted to be in charge of Bunnings operations in the UK and Ireland, also as managing director. John Gillam will oversee all of Bunnings' operations, and his title is now Bunnings chief executive officer (CEO).

Wesfarmers has indicated it hopes to retain many of the current Homebase retail staff. The current managing director of Homebase, Echo Lu, who was appointed in April 2015, has agreed to remain with the company in the interim.

Briefing

In mid-January 2016 Wesfarmers held a preliminary briefing into the potential Homebase acquisition. The presentation was delivered by the Wesfarmers managing director, Richard Goyder, and Mr Gillam.

What was presented was very preliminary. Its purpose was clearly not to provide a clearcut vision of how Wesfarmers would go about managing this acquisition, but more a broad overview. Its main content was a quite rough assessment of the home improvement market situation in the UK and Ireland, and an outline of how Wesfarmers will set about improving the operations of Homebase.

This improvement will include running Homebase as Homebase for around a year, then rebranding and repurposing its real estate assets into Bunnings branded, warehouse-style retail outlets. An important component of this transformation will be opening a number of Bunnings branded "pilot" stores, which will be used as experimental platforms for the company to better understand home improvement retailing in the UK, and develop what it refers to as "a winning offer".

The predicted period for the complete transformation of Homebase to Bunnings UK is around three years, and the company estimates it will require an investment of GBP500 million over and above the GBP340 million purchase price.

Acquisitions

Mergers and acquisitions are always interesting corporate events to report and analyse. One reason for this is that while corporations will commonly offer all manner of statistics, assertions, descriptions and analyses supporting what they are doing, the reality is they are seeking to merge or acquire because they want/need to.

What usually fuels that want/need is a combination of two drives: the need to better employ certain capabilities the company has developed; and a need to fulfil

HOMEBASE

GBP340 million
acquisition price

265
stores

3500 sqm
average store size

April 2016
acquisition completes

certain strategic objectives that cannot be met through the organic expansion of the business.

Wesfarmers' current proposal to take-over the Homebase home improvement big-box retail operations of the UK-based Home Retail Group seems to have these two sets of drivers.

Capability investment

In its efforts to ensure that the Woolworths-owned big-box retailer Masters Home Improvement did not succeed, Wesfarmers invested heavily in Bunnings. While that investment continues to reap good returns, the question remains as to whether Bunnings will continue to deliver the kind of growth expected of divisions by conglomerates such as Wesfarmers.

The Homebase acquisition provides Wesfarmers with a suitable "home" for the talents and capabilities that it has developed in its Bunnings operations. One way to look at it is that the company has found a good place to invest the "knowledge capital" it has available.

Strategic gain

There is also the possibility of a strategic gain. Wesfarmers is in effect "exporting" knowledge about home improvement retail to a new market, the UK. In return, as the UK has a more advanced general system of retail (particularly as regards online "omnichannel" retail), Wesfarmers will find information about new retail practices filtering back into the company.

This knowledge can be used directly by the Australian operations of Bunnings, and in further developing Wesfarmers' other retail operations.

There are other strategic benefits as well. The UK market is not resource-dependent in the same way that the Australian market is. In fact, it is to some extent contra-cyclical to the Australian market.

Perhaps one of the most important "macro" issues is simply that the Australian economy is likely to grow at quite a slow rate over the next six to eight years. Manufacturing is steadily decreasing in importance as, for example, car making plants for Ford and Holden shut down. Replacement economic activities, such as services and technological development, will take around a decade to fill the gaps that lower commodity prices and less manufacturing will leave.

The UK market, by contrast, is much further along in its economic transformation. It has, for example, a thriving high-tech entrepreneurial sector. By moving some investment to that economy, Wesfarmers is likely to see better returns than it would investing solely in the Australian economy.

Overview

In much of what follows, HNN takes a detailed approach to analysing and exploring the issues raised by this presentation. As some of the statistics provided and the assertions made do not seem to accord with independent sources, some of this is slightly critical.

Additionally, HNN does go into some detail about the challenges that Wesfarmers will face in tackling this acquisition and transformation. This includes issues such as finding an alternative to an unsegmented approach to the market (for reasons we detail), moving to develop capacities in online/digital retailing, and developing more sophisticated marketing.

HNN does move on to opportunities, and some of what seems the hidden logic driving this acquisition. We demonstrate statistically some features of the UK housing/renovation market that we believe is actually evident to many of the other home improvement retailers in the UK. In short, we believe there to be strong statistical indications that renovations and DIY are likely to pick up quite strongly from about 2019 onwards.

HNN believes that it is possible that major competitors in the market, including Kingfisher and Travis Perkins may have made a similar assessment. This would be one reason why they have embarked on programmes of significant business transformation. In part, they need to get through the next three to four years with better earnings through improved efficiencies. Also, however, they are setting themselves up to take maximum advantage of a coming sharp increase in activity.

If this statistical forecasting is accurate, this would mean that Wesfarmers' timing of the Homebase acquisition is very good. Had it taken place a year or two ago, the company would have experienced a more prolonged exposure to a down market. Had it taken place a year or two in the future, it is unlikely that Bunnings UK would have been developed sufficiently to take immediate advantage of the increase in activity. Instead it would have found itself competing in a market where its competitors could work more effectively, and offer very strong competition for market share.

HNN has commented in the past that we believe that Bunnings is partly in the business of surprise. This acquisition also surprised us, but we believe this is a positive event. We do think that the next four years are going to be a very difficult time for Bunnings UK, and that it is likely it will take Wesfarmers more time and also more funding than it has allocated to achieve the result the company seeks. However, equally, we believe the underlying, medium-term fundamentals of the UK home improvement market are so strong that this investment will prove to be a good one.

Understanding the acquisition

While the capability investment and strategic gains goals may be the real purpose of this investment, Wesfarmers has presented its case for this acquisition in the terms more usually used for a general investment. It has used a framework similar to one for a standard, more organic expansion. In taking this tack the company has supplied some unusual interpretations, both of available data and the general concerns that surround the acquisition.

It is very likely that when Bunnings presents its Strategy Briefing in May 2016 much of what seems inconsistent and a little unclear will be ironed out. At the moment, in February 2016, Homebase is effectively "under offer", and it is a bit much to expect a company to present thorough operational detail regarding operations they do not even own just yet.

In particular, Wesfarmers finds itself in the frustrating position of not being able to share some of the best information it possesses about why the acquisition is likely to work. It cannot convey this information either because to do so would reduce its competitive advantage by telegraphing strategy to competitors, and/or because it has entered or will enter sensitive negotiations about these matters. This difficulty was mentioned explicitly by Mr Gillam in response to some analysts' questions at the briefing.

The home improvement retail industry

These are some the points made in the Wesfarmers presentation:

- UK total home improvement and garden market, including trade, is worth GBP38 billion in sales revenues
- Australian home improvement market is GBP23 billion
- The top two companies in the UK market have less than 15% of market share combined
- The UK home improvement market is highly fragmented
- Home improvement in the UK is a growing market and is forecast to grow at a rate similar to that of the Australian home improvement market

Market size and participation

As they are closely related, it is best to deal with the first four points together: the UK market is GBP38 billion, the Australian market is GBP23 billion and the top two home improvement companies account for only a 15% share of this market.

Statistically these numbers are, unfortunately, a little baseless, and so do not provide a useful general indication about the market.

That is due to two factors. The first is that there is a confusion in them between defining what is sometimes called the "addressable" market, and the participatory market. The second factor is that Wesfarmers seems not to fully understand how the UK's Office of National Statistics (ONS) formulates its retail statistics, especially how the actual numbers get reported.

Wesfarmers does not supply the statistical origin of the GBP38 billion assigned to the size of the UK home improvement market. Backfitting statistics, it seems fairly certain Wesfarmers is using the sum of the following European Standard Industry Code (SIC) classifications:

- 47520 - Hardware paints and glass
- 47530 - Carpets, rugs, wall and floor coverings
- 47540 - Electrical household appliances
- 47590 - Furniture, lighting equipment and household articles not elsewhere classified
- 47760 - Flowers, plants, seeds, fertilisers, pet animals and pet food

The retail sales for these categories for calendar 2015 all add up to GBP37.851 billion.

To arrive at the number of 15% for the market share of the two main companies in the home improvement market, Wesfarmers has then taken the revenue from Homebase and - we presume as it is not stated - from Kingfisher's B&Q UK operations, added these together and divided them by the assumed addressable market revenue, coming up with 15%.

Bunnings has for some time in Australia combined a number of retail categories in a similar way to define its overall addressable market. Its point was that there was, in the phrase used by Mr Gillam, "plenty of runway" in the market, i.e., room for expansion.

While it is legitimate for a company to assign itself whatever addressable market it sees fit, it makes less sense to impose that addressable market as a measure of success on companies that do not participate in it, at least not in a statistical sense.

We know that Homebase does not participate in this very broad market, because its entry on the register for the UK's Companies House lists these SIC codes:

- 47190 - Other retail sale in non-specialised stores
- 47520 - Retail sale of hardware, paints and glass in specialised stores
- 47540 - Retail sale of electrical household appliances in specialised stores
- 47599 - Retail of furniture, lighting, and similar (not musical instruments or scores) in specialised store

Similarly with B&Q, which lists these SIC codes:

- 47190 - Other retail sale in non-specialised stores
- 47599 - Retail of furniture, lighting, and similar (not musical instruments or scores) in specialised store
- 47789 - Other retail sale of new goods in specialised stores (not commercial art galleries and opticians)

You cannot reasonably compare the performance of a company to a market in which it does not participate. It does not make any statistical sense at all.

These are fairly easy statistical mistakes to make, especially in the heat of the moment of a major announcement. What is more concerning is that it would appear Wesfarmers has come to the UK home improvement market with the perspective of Australian markets in general, and is intent in seeing it in terms of a duopoly.

Given that the ONS retail statistics are not a good guide to the market, a better approach might be to look at the revenues of the major competitors in the home improvement area. As Bunnings is likely to pursue something of a value, low-cost approach to the market, the following competitors would be worth considering:

- Kingfisher: B&Q, Screwfix
- Travis Perkins group: Wickes, ToolStation, TileGiant
- Wilkinson
- The Range
- Tesco
- Asda
- Amazon UK

There is, however, even a difficulty with this. Unfortunately, it's not possible to present the revenue data for the last three - Tesco, Asda and Amazon - as the companies do not breakout their DIY sales. However, all three of these play a significant role in the low-price/high-value segment that the Bunnings-branded relaunch of Homebase is most likely to use as an entree to the UK market.

Using the available data, the Chart 1 gives a more accurate picture of the competitive challenge that Wesfarmers faces with Homebase.

What this diagram illustrates is that the situation Wesfarmers will encounter in the UK is different from the common Australian situation of a market duopoly. The situation is one more common in Europe, where there is a single company that tends to dominate and a number of other companies which essentially compete for second place. This can be seen in areas as diverse as supermarkets and the automotive industry.

The strategic insight that should emerge from this is that, in practical terms, while Homebase may compete with every company in the market, its initial competitive focus should really be on those companies that are closer to it in size. In terms of early market share gains, Wickes, Wilkinson and The Range offer fare easier targets than Kingfishers' B&Q.

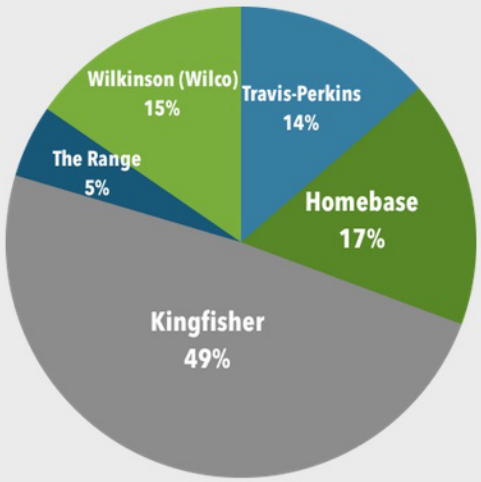
;Market fragmentation

There are numerous mentions of the "fragmentation" of the home improvement retail market by participants and some commentators. It is certainly the case that this is not as consolidated a market as, say, supermarkets, but neither is it as entirely fragmented as some would believe. What you could say is that a portion of the market is relatively consolidated, and a portion of the market is fragmented.

The ONS usually separates retail revenue into that produced by large companies and small companies. It uses the rather unusual definition of a large company as one employing 100 or more people (the general standard is 250 or more people). Statistics indicate that, in the "47520 - Hardware paints and glass" classification there are 25 companies that are classified as large. The retail revenue data shows that these companies are responsible (taking the average of the past three calendar years) for 74% of the revenue generated. The remaining 26% is generated by 5850 companies, of which 5185 have fewer than 10 employees.

Thus we could say that the top portion of the market is relatively consolidated, and the bottom portion of the market is very fragmented. In competitive terms, this suggests that while there are gains to be made through "consolidation" in the bottom of the market (i.e. , taking market share away from other retailers), these will be gains incidental to overall marketing strategies.

Retailer	Revenue (millions GBP)
Travis-Perkins	1,283
Homebase	1,600
Kingfisher	4,600
The Range	470
Wilkinson (Wilco)	1,450



UK Major Home Improvement Retailers

Chart 1: UK Major Home Improvement Retailers

With the larger companies, competitive targeting might work to some extent, but the possibility of further acquisition should also be considered.

UK home improvement market growth rate

While the Wesfarmers presentation states that the expected growth rates for Australian and UK home improvement retail will be roughly the same, it has not been possible for HNN to locate any industry commentators who agree with this.

According to Retail Economics, in the 2015 UK market there was a:

> *4.5% decline in sales, year-on-year, in the DIY and Gardening category. 2015 ended up being a pretty challenging year for this sector, with sales growth averaging just 1.2%. This was down significantly on 2014 when sales rose by 5.7%.*

Chart 2 shows the percentage changes year-on-year for unadjusted total revenues in each country for the hardware plus garden categories. It reflects two quite different markets.

Decline of amateur DIY in the UK

There is a consensus among many commentators and analysts that DIY activity in the UK has been declining for the past three to four years. This market analysis was actually dismissed by Mr Gillam during the presentation - he referred to it as "some commentary". While some sources have suggested the decline in DIY has been caused by a lack of skills in younger generations, a better analysis indicates it has been the influx of cheaper labour from former Easter Bloc countries:

> *John Carter, chief executive of Travis Perkins, the GBP5.6bn a year building and plumbing supplies business which owns the Wickes chain, said the influx of skilled workmen from the former Soviet bloc introduced competition to the market. He said it had created "it for me" culture that ended the era of "Do it yourself".*
>
> *"It was driven by the influx of Eastern European builders who were skilled and competent," said Mr Carter. "They regulated prices and gave people a choice. The UK fell out of love with DIY from the peak when Changing Rooms and Ground Force were on TV."*

Poland joined the European Union along with seven other Eastern European countries in May 2004, leading to a flood of immigrant workers, including many builders. The EU migrant worker permissions were widened to Romania and Bulgaria last year.

http://goo.gl/oxST4e

The Financial Times provided similar research:

Executives point to a structural shift in the market, which was worth GBP14bn last year. Travis Perkins, the FTSE 100 builders,Äô merchant, relies on RMI for 80 per cent of its sales. Chief executive John Carter says DIY sales peaked in 2004 and now fewer young consumers have the desire to tackle home improvements, instead choosing to spend their money elsewhere.

"We are vying for minds and wallets against holidays, new cars and three-piece suits, at a time when a steady influx of immigrants from eastern Europe and access to builders online has introduced competition into the market for those reluctant to do DIY jobs," he says.

"The fact that many are reliable, affordably priced and keen to work has proven very attractive to consumers; it has created a 'Do it for me' culture that has curtailed the era of 'Do it yourself'".

http://goo.gl/KgdGlA

And The Economist as well:

Since the recession, though, Britons have mostly avoided dirtying their hands. Spending on DIY tools and materials has fallen 22% in real terms

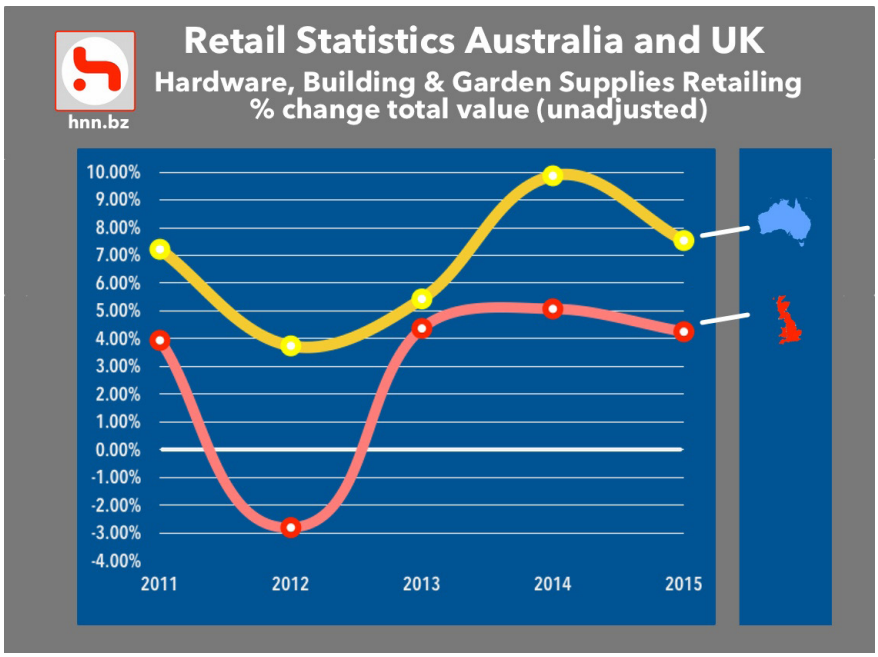


Chart 2: Compare growth in UK and Australian retail revenue

since 2008, according to an analysis of national statistics by Lloyds, a bank. But spending on tradesmen's services has held steady. In short, says Aynsley Lammin at Citigroup, an investment bank, doing it yourself has given way to getting someone in.

The number of self-employed construction workers has jumped by nearly 10% since the financial crisis, according to the Office for National Statistics. As consumer confidence grows, small tradesmen stand to benefit more than either DIY retailers or big building firms, says Paul Bogle at the National Federation of Builders, an industry body.

http://goo.gl/TQ7CA4

Kingfisher research

That said, there are those in the industry who would fully support Mr Gillam's view, with some qualifications. One of them is the CEO of Kingfisher, Veronique Laury. In the recent report produced by Kingfisher, Ms Laury made a number of statements about the DIY market:

Those people [DIYers] are everybody, and our market is really huge. 75% of the European populations have been visiting a home improvement store last year, and 60% of the population in Europe has done a home improvement project last year.

You will bear with me that this is quite the big number of people. Who are those people? They are everybody, and sometimes I'm hearing, the 'young are not doing home improvement anymore, the old are not doing home improvement', so what are you doing?

This is not true. Those people are everyone; they are 50 female, 50 male, 42% of the population is over 50-years old, and it is almost everybody who is doing home improvement.

As we will discuss later, HNN believes one reason for this decline in DIY activity is that there is a cyclical decline in the housing stock that is ready for renovation. This causes a decrease in overall demand, which brings down the prices of professional renovation services, which are in plentiful supply due to the free movement of employment throughout the European Union.

Challenges

Not unsegmented

As we pointed out above, when the competitive market is really examined, it would seem to make more sense for a Bunnings-branded Homebase (which we will refer to as "Bunnings UK") to think of itself as competing with those home improvement chains that are closer to it in size, at least during its developmental period.

One reason for this has to do with a prime tenet of what is today called "asymmetric" warfare (once known as guerrilla warfare). This was pioneered originally my Mao, further developed by Fidel Castro during the Cuban Revolution, and implemented on a considerable scale by the Northern Vietnamese during the Vietnam War. A number of US military thinkers, in considering how they and other "Great Powers" had managed to often lose asymmetric conflicts against less well-equipped and generally under-resourced opponents, came up with a number of reasons for strategic failure.

By far the most compelling was that successful smaller opponents all had one trait in common: they never matched the tactics of the superior opponent head-on, but instead always switched to strategies that were different. The classic text on this area was written by Ivan Arreguin-Toft in 2001, entitled "How the Weak Win Wars". "Same approach interactions", Dr Arreguin-Toft wrote, "imply defeat for weak actors"

> *...because there is nothing to mediate or deflect a strong actor's power advantage... By contrast, opposite-approach interactions ... imply victory for weak actors because the strong actor's power advantage is deflected or dodged.*

http://goo.gl/CcGxKP

Some of this thinking applies to those areas where Bunnings UK will find itself in confrontation with Kingfisher. It is worth remembering that Kingfisher has annual revenues of around $22.5 billion, and Bunnings has annual revenues of less than $10 billion. There is no doubt which of the two is the bigger home improvement company, especially in Europe.

In particular where the asymmetric thinking needs to apply, HNN believes, is in the area of segmentation. Bunnings, as HNN has noted in the past, has pursued what could be called an "unsegmented" strategy in its Australian operations. What we have suggested is that its marketing approach can be condensed to these two queries:

- Who is not coming to our stores, and what to we have to do to get them in?
- Of those who do visit our stores, what are they not buying from us, and how do we get them to buy it from us instead?

In much of the European market, including the UK and Ireland, B&Q has taken a basically unsegmented role. This seems to be something that Mr Gillam would want to question, based on one offhand remark he made during the presentation. HNN does have what it regards as pretty definitive evidence of B&Q's unsegmented approach: the use of a familiar slogan in its advertising campaigns. HNN would suggest that the use of the "Price is just a beginning" tag by almost any retailer is a sure sign of an unsegmented approach to retailing.

What might have misled Mr Gillam and some other commentators about the structure of B&Q's marketing is that the queries that drive its marketing are subtly different. They are:

- What part of the customer's life would benefit from a relationship with what we offer in our stores, and how can we best deliver that benefit?
- In other areas of the customer's life that we do not benefit, how can we extend our current benefits or develop new benefits to touch those as well?

The important strategic consideration is that, given B&Q's size and position in the market, attempting to compete with the company through a counter-unsegmented approach will most likely fail - it is a case of a weaker side countering a strong opponent with a similar market strategy.

To see how that works out in the marketplace, power tools offer a ready example. Bunnings Australia offers a very complete range of power tools. At the low end there is the Ozito non-trade tools, with Bosch Green, Bosch Blue, Makita, AEG and DeWalt going up the range. Tying this all together is the Techtronic Industries (TTI) Ryobi brand, which has been steadily expanding its brand width over the past three years.

With the exception of Ozito at the low end, that also pretty much describes the tools sold by B&Q. The degree to which these are exclusive offers, and how much leverage there might be around exclusivity is difficult to tell. It's worth noting, however, that Masters has not had access to DeWalt 18-volt products, and has only sold 14.4-volt drills. The power tool companies are simply going to think long and hard before they do anything that is going to upset their larger customers. In Australia that privileged customer has been Bunnings. In the European Union it is Kingfisher.

Similar supplier relationships are likely to apply across the board. Any concessions that Bunnings manages to get from suppliers that supply to both it and

Kingfisher are likely to be followed up by Kingfisher demanding the same terms and conditions. Even if Bunnings goes outside the Kingfisher suppliers and obtains great deals on other brands, Kingfisher is likely to go back to its own (potentially more established) brands and demand similar, matching deals.

The one ray of light for Bunnings in such a conflict is that Kingfisher is in the process of pulling back from a range of suppliers, as it seeks to unify its offer. It seems very likely, however, that it will be cherry-picking the best brands, and actually strengthening its relationship with them.

It is also worth noting what the exact response to the coming entry of Bunnings in the UK market has been by Kingfisher. At the recent Capital Markets presentation day, Arja Taaveniku, Kingfisher's chief offer & supply chain officer responded to a question by an analyst about Bunnings by saying this:

> *We have put in very prudent assumptions on price reductions. They will have to come. Again, we are, as we've been saying, we are for everyone that wants to improve their homes. And the home improvers have limited resources. So, we are going to develop the offer based on target prices. And by there, we will also design this value chain, meaning that we can also offset any profit losses on it.*
>
> *Then there are coming new competitors, like we've seen now what's happening with Homebase. And of course, it will be interesting to see how they handle this - Australia is a high price market. And it will be interesting to see how they manage coming to UK, which has a completely different price level than Australia.*

A final note of warning is sounded by Ms Taaveniku answer to another analyst's questions about how Kingfisher expected to secure a 5% reduction in supplier prices in the future. She related a story told to her by one of the company's buyers:

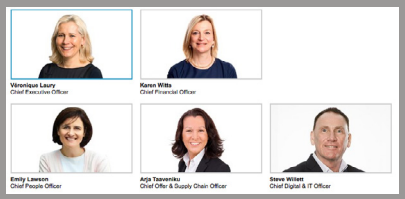
> *[The buyer] told me that he used to come to the bulbs supplier in China, visiting the factory, and he was looking on the other production lines that were producing products for companies like IKEA.*
>
> *And he asked the IKEA account that, "when can we have that for B&Q?" And they were like, "well, you seriously have to come back with some kind of different volumes."*
>
> *And then he told me that now when I came with the group volumes, that factory director spent the*

The gender issue

One of the big challenges that Bunnings UK will face is that gender roles in the UK are substantially different to those in Australia. This is going to have a major effect not only on the approach to consumers, but also on the internal management of the UK operations of Bunnings.

In general, Australia lags quite a bit behind the rest of the developed world when it comes to gender equality. In case anyone would like to dispute this issue, it is perhaps useful to look at the image below:

And the following image is of the leadership team at Kingfisher/B&Q.



Just as important as being seen to be gender equal in terms of employment and opportunity is how the two companies relate to women customers in their retail outlets. According to a book on better understanding female motivation co-authored by Jane Cunningham and Philippa Roberts, Inside Her Pretty Little Head, in the UK:

> *More than 80 per cent of the DIY project catalysts, those who provide the inspiration for the project and decide the look and feel of the room, are women. And women now make up approximately 40 per cent of the DIY market, a figure that has been slowly growing during the past five years according to an analysis of national research by B&Q.*

https://goo.gl/Rh2b92

Some research has indicated differences in the way Australians view gender equality and the way Europeans approach the issue. Where Australians will tend to stratify equality, Europeans see the issue as one of shared participation. In real terms, when designing an outdoor space, for example, it is common for Australians to divide up the task: the man will choose the barbecue itself, while the women will choose furniture, cushions and so forth. Europeans are more likely to see all of these decisions as being ones they need to reach together.

whole day with me, and they can do a complete different set up in production lines for us, which we have never, ever been able to do.

And we have also, and you know what, when we started this process, we had the assumption that, for example, B&Q is such a big company already, and have running big volumes. That's, well, compared with smaller retailers, yes, but not compared with global retailers that are benefiting from global volumes.

Online

During the presentation Mr Gillam made repeated references to online, and its importance in the UK market. Wesfarmers also supplied a graph which is supposed to show how successful the Bunnings online presence has been, by charting the number of visitors to the Bunnings website as a per-capita ratio, thus proving that Bunnings is outperforming both B&Q and Lowe's.

This is, of course, very interesting. To add a little perspective, HNN has provided an accompanying graph, which charts the e-commerce sales Bunnings has made of actual products to consumers over the past five years through its online operations, illustrated by the red line.

This fact seems not to be prominently featured in the section on online in the presentation. Bunnings has had a fully transactional website for trade customers, and has made sales of its gift-cards available online as well. It has yet to sell any real products to consumers, however.

As anyone in retail e-commerce will tell you, building a full e-commerce operation is easily a full order of magnitude more involved and difficult than building an information-only website. Beyond the issues of making the ordering process easy to use and securing the site, the real difficulty lies with managing the underlying logistics. Are goods shipped from a central location? Can they be shipped directly from a store? How can click-and-collect be supported through the supply-chain? Can returns be made to a store, and if so, how is the returned product managed from that point onwards?

While Homebase does have a fully functional e-commerce site, both the site and the underlying logistics are unlikely to match the requirements for the expansion that will be Bunnings UK. As HNN has mentioned in the past, the difficulty with e-commerce capability is that it cannot simply be "bolted-on" to an existing business and expected to function well. It typically takes around two years for a company to develop the necessary internal skills and processes to provide an acceptable online experience.

This is of crucial importance in the UK market. UK consumers are some of the most avid online purchasers. Online is also, of course, one of the main avenues of competition against a low-cost, high-quality retailer, such as the planned Bunnings UK.

In this area Bunnings UK will also come up against a really tough competitor that the company has never faced before: Amazon. To give an idea of how competitive Amazon is, eliminating the GST and VAT, and making a currency conversion, the price of the Bosch PEL 800 jigsaw from Bunnings is $90, and from Amazon UK it would be $95.50 - but the latter price includes free delivery, for all customers, and free next day delivery for Amazon Prime customers. Then there is the Makita DSS611Z 18-volt cordless circular saw, which Bunnings sells ex-GST at $179. The Amazon UK price is $160 ex-VAT - again, delivered.

One of the key value shifts that the management of Bunnings will have to make when considering the above is that for modern UK consumers having the product delivered rather than picking it up in the store is considered a positive part of the transaction - as long as the delivery itself is free. Taking the example of the Bosch jigsaw, many consumers would see the extra $5.50 as well-spent on the order from Amazon. The alternative would be finding some way, probably through public transport, to get to a Bunnings UK store, most likely at what is an inconvenient time, such as after work or during a busy weekend.

Makita DSS611Z 18V Body Only LXT Cordless Circular Saw
Buy new: £96.00
11 Used & new from £89.41
(5) Prime

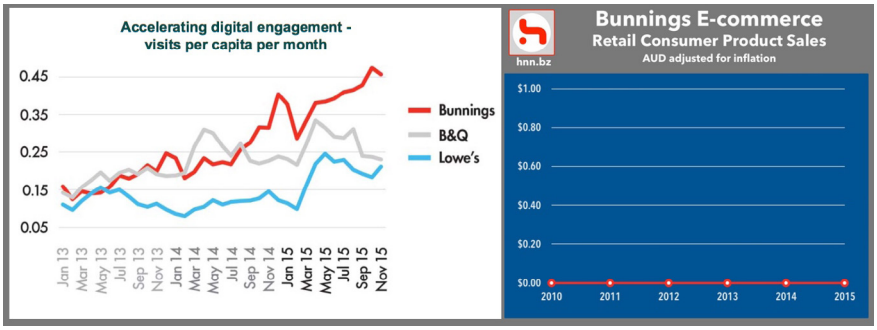


Chart 3: Bunnings web stats: traffic and e-commece sales

Marketing

Some UK commentators have remarked that the Bunnings move of first buying an established brand, and then changing both its name and the market it goes to is perhaps not the most advisable course of action. Writing in The Guardian, Vince Kerrigan, strategic solutions manager at Vital Communications suggested:

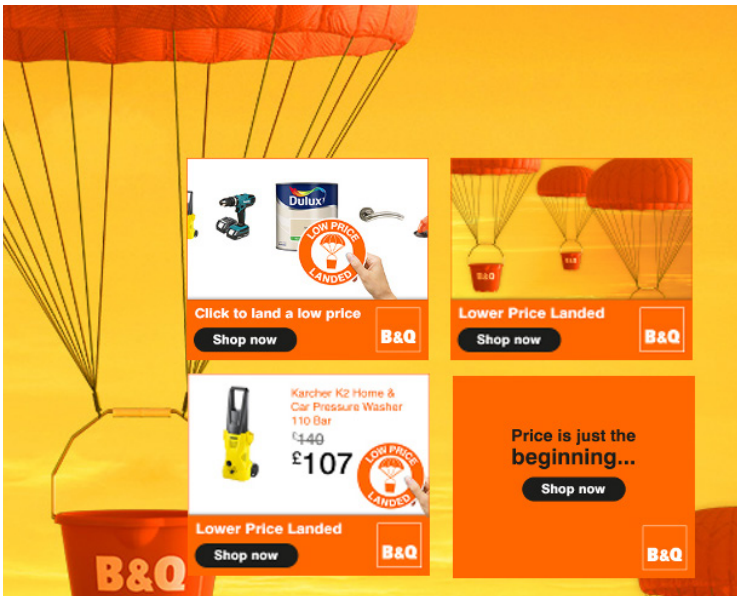
> *While it might seem risky, the decision to rebrand Homebase stores is likely to be of considerable concern to other market players. Brand owners understand that even small changes in consumer behaviour, competitor activity and changes to the business itself can have a significant bearing on brand perceptions; in some cases, bringing changes overnight. One of the UK's leading chocolate retailers, Thorntons, experienced this when Hotel Chocolat arrived with a proposition that redefined premium chocolate.*
>
> *While the decision to bring the Bunnings' brand to the UK is a bold one, it should be noted that the company's decision makers had a choice. Other international corporates that have invested in assets in the UK have taken a different approach, preferring to continue to market their products and services under the existing UK brand name.*
>
> *Indeed, it would have been an odd commercial decision for Kraft to invest in Cadbury and then commission a rebrand. Similarly, US retail giant Walmart has taken a back seat from a brand perspective, allowing the Asda brand to continue unchanged in the UK. Bunnings is doing things differently and while its confidence in its brand is admirable, it could end up paying the price.*
>
> *As it prepares for a brand launch in the UK, Bunnings will want to bring its brand proposition and personality to bear as quickly as possible. To succeed in securing and strengthening its market share it will need to ensure its brand communications are aligned to the needs and wants of relevant customer groups in the UK. For all its bravado, failing to put British customers at the heart of these changes could render Bunnings,Äô market entry a flop.*

http://goo.gl/hK2Un1

In the end what Wesfarmers has bought in its purchase of Homebase is a store fleet, in good locations, though slightly small for its needs, some expertise in areas such as online e-commerce, and, potentially, a number of staff.

One of the difficulties with the purchase is that Homebase's current values are almost diametrically opposed to those of Bunnings. In an interview with former Home base managing director Paul Loft, he outlined the approach the retailer moved to in 2014:

> *In the past, Homebase may have lost out on customer spend because of its shed-base layout. This didn't enable customers to shop easily for an entire project, which is what they want when embarking on home improvements, envisaging a finished room rather than just a paint colour. Customers are looking for service, explains Loft, and the way they view DIY is changing. There will always be the DIY enthusiast who likes doing the job for its own sake and there will always be work that people carry out themselves such as decorating. But, says Loft, these skills are being lost, and he believes customers are looking for easier ways to get the job done, whether that's with the help of guides or videos or getting someone else to do the work for them.*



Somewhat familiar advertising slogan

https://youtu.be/EHwrxeZhrXE

Homebase is not planning to forget its DIY customers in its move to cross-channel, but it is increasingly focusing on a group of consumers that Loft calls "the home enhancer": mainly females who love their home and are more interested in the outcome of the project than doing it themselves.

Women continue to dominate as specifiers for purchases, he explains. This long-term trend away from DIY to Do It For Me (DIFM) is where Loft believes the future lies for Homebase. "Half of kitchen sales we install," he says. The company also arranges the installation of bathrooms, tiling and flooring, as well as decorating. "We are investigating other things including garden landscaping," he says. Prices are on a par with those charged by local tradesmen and Homebase has in-store staff trained to offer advice.

http://goo.gl/54RHV0

When Homebase stores re-open with the Bunnings UK branding, they will face almost the same challenges as a brand new store under those circumstances. The name will have changed, the branding will have changed, the products on sale will have changed, the staff will be retrained. Just about every customer who was previously attracted to Homebase is unlikely to be attracted to what promises to be a somewhat "rougher", more hardware-centric environment.

This means that Bunnings UK is going to have to launch a high-intensity media campaign, most likely at the beginning of its second year of operation to achieve the sales it will be seeking.

While HNN would not underestimate the effectiveness of the advertising Bunnings uses in Australia, we would point out that it is simply not going to be sophisticated enough to appeal to UK audiences. The UK is one of the primary media creative centres of the world, and its consumer are both heavily influenced by advertising, and highly critical of poor efforts.

The competition, particularly B&Q have a long-standing reputation for producing high quality advertising. The difficulty with advertising creative is that it is similar to online/digital operations: it really cannot just be "bolted on" to an existing structure. It requires time and care to build a culture that is capable of commissioning, managing, and critically appraising good quality advertising.

Opportunities

A coming renovation boom?

One of the curious features of the UK home improvement industry at the moment is how many retailers are launching into various forms of three- or five-year rejuvenation plans. At the very least this includes Kingfisher and Travis Perkins, and there are signs of more modest refitting at other retailers. Why is this happening?

An obvious cause is simply the slow-down in growth of the DIY sector. With growth in this area stunted over the past three years, retailers are downsizing their store fleets, and seeking better efficiencies in their businesses. They are also, of course, increasing the availability and usefulness of digital alternatives and assistants to their sales.

However, HNN believes that there is something else at work in these longer term reorganisations. We believe that by making a careful analysis of the the private building output statistics for the UK it is possible to see that, while the DIY and renovation markets are in something of a slump, within three to four years they will likely begin to move out of this, so that post 2020 there is the possibility of a high level of activity in this area.

Renovation timing

It is a generally accepted statistic that the majority of renovation activity on new housing occurs between the 15th and 20th year post-construction. By the end of the twenty-fifth year post-construction the majority of houses have undergone some form of renovation.

Chart 4 represents the raw numbers for private building activity in the UK from 1983 through to 2015. Using the ranges suggested above, the chart has been marked with a light blue box to indicate the renovation "catchment area" for 2015. As can be seen this is a period of relatively low activity.

Renovation catchment halo

While the above chart is useful as a general reference guide, HNN worked these statistics a little more to provide a better overview of the expected renovation market size. To do this we took the numbers for the period of 15 years to 20 years back, and made the assumption that at 15 years around 40% of homes would be renovation, and that this would increase to 60% at 20 years. We also assumed that in the period from 21 years to 25 years, an additional 20% of homes would be renovated, on an evenly distributed basis.

The results of these calculations then gave us a single number for years reaching into the future that would indicate the renovation catchment "halo" for that year. That is, it provides a general indication of how much renovation stock would likely become available around a particular time.

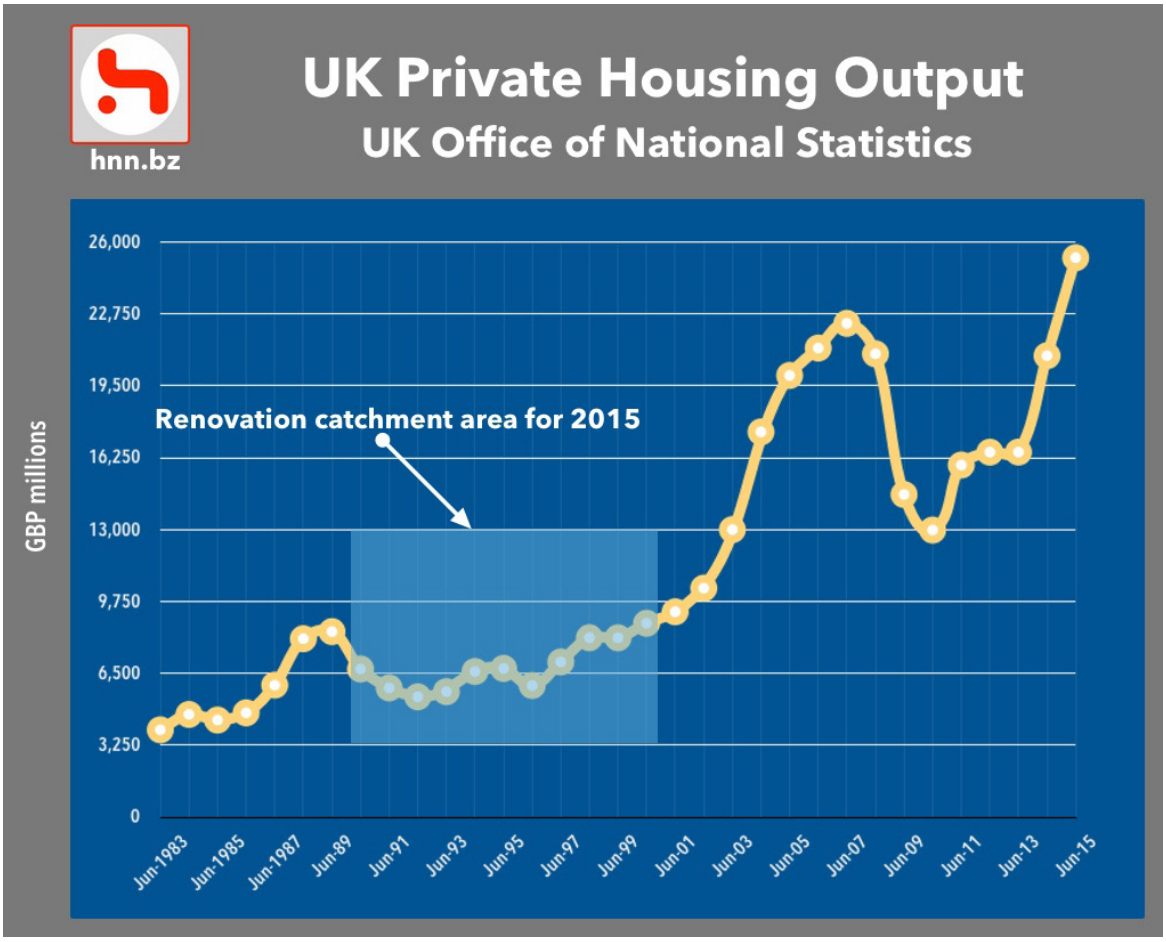


Chart 4: Private housing output for UK

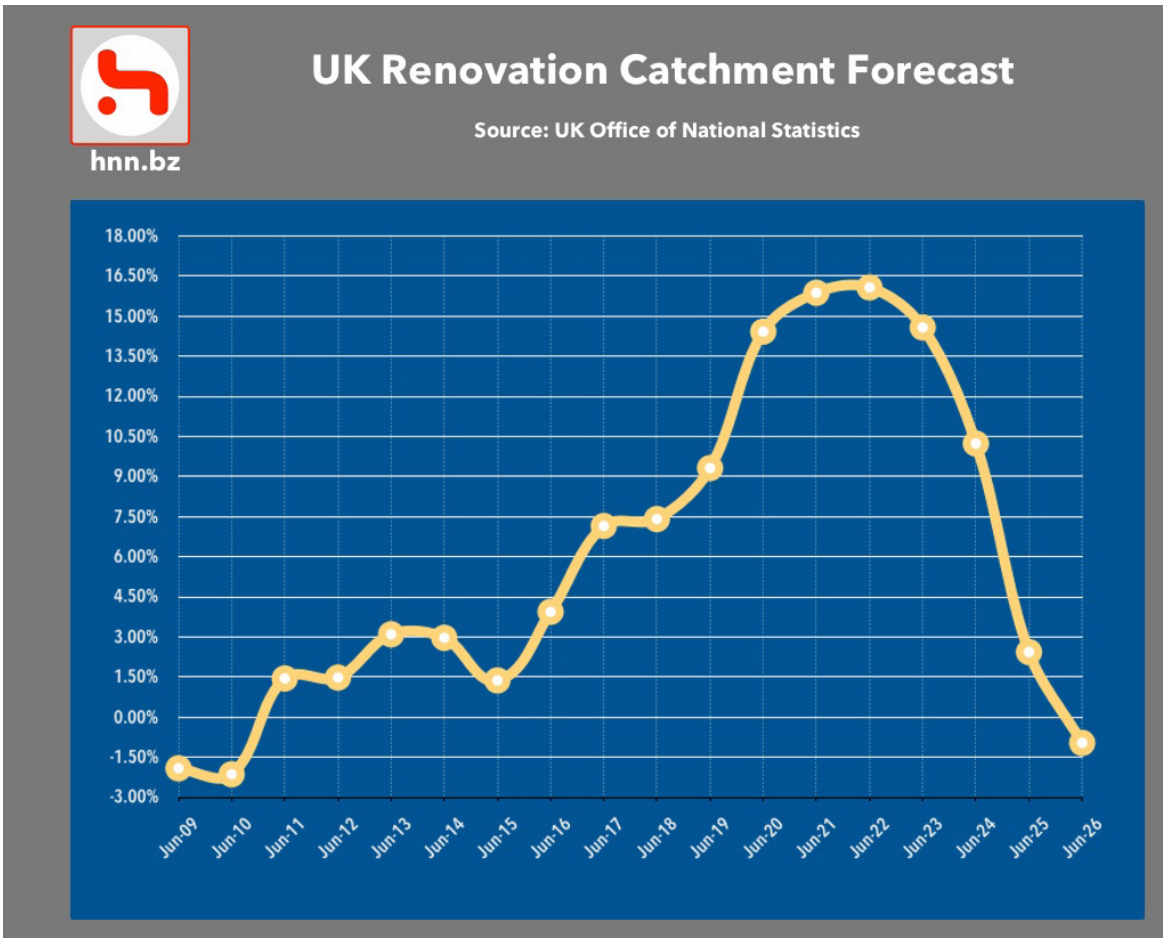


Chart 5: Forecast renovation catchment area

As we are less interested in the total amount of stock that becomes available, and more interested in the percentage change in stock, we then calculated the percentage change. The result of these calculations are shown in Chart 5.

This is a slightly unusual way to use statistics, as the model is basically a probabilistic one. It is really defining the rough timing of when renovation expenditure is likely to rise and decline.

Conclusions

If these forecasts are valid, then it is evident that the move to acquire Homebase has been a strong strategic development for Wesfarmers. While it is likely that the years from 2016 to 2018 will represent relatively slow growth in renovation expenditure, post-2019 and beyond the market will likely grow quickly.

Segmentation

While it is quite likely that Bunnings will at least experiment with an unsegmented approach in its UK operations, the likelihood of this succeeding is relatively low. Faced with a renovation market that is still slow and declining pure DIY involvement, what strategy could work for the retailer?

Curiously enough, there is one segment of the market that has a number of great growth indicators over the coming three to four years: repair, maintenance and improvement (RMI). According to statistics from the ONS, some 60% of houses in the UK require additional maintenance. Chart 6 shows a forecast prepared by an economist, that predicts an ongoing helpful climb in RMI spending.

This is further backed up by numbers from the ONS on Housing Expenditure. They show that in 2012, 2013 and 2014 average household expenditure on contracted out home improvements went from GBP17.30 to GBP17.70 to GBP24.00 per week, respectively. Most other expenditure for maintenance decreased, except for direct spending on home maintenance, which went from GBP3.90 to GBP4.30 per week from 2012 to 2014.

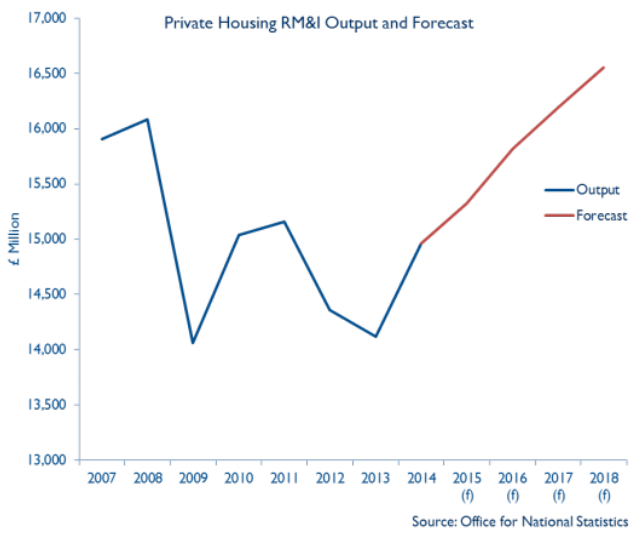


Chart 6: Forecast RMI

RMI, in fact, is the one area where UK residents are somewhat committed to a DIY approach. They will hire a professional for actual renovation work, but when it comes to repairing rather than changing their home, they would prefer to do it themselves.

If we think about RMI is about, we could say it is a question of "looking after" a property. There are a number of other segments available that also deal with the kind of "looking after". These would include ageing in place, making dwellings more energy efficient (and also warmer in winter), and adding home automation. The segment that exists is about looking after your dwelling so that it in turn can look after you.

Summary

The overall problems and challenges that Wesfarmers will face in building a Bunnings UK are likely to be more pressing and more difficult to overcome than the company has currently publicly acknowledged. That said, the end benefit of matching those challenges is likely to be considerable, and worth the effort.

Estimating very roughly, HNN would suggest that where Wesfarmers is likely planning to transform Homebase in around 40 months, HNN would suggest a more realistic timeframe would be 50+ months.

One reason for this longer timeframe is that HNN believes that Wesfarmers has not fully taken account of the effect of seasonality on its pilot programmes for Bunnings UK stores. The spring (second calendar) quarter poses unique opportunities and challenges. It will take the company longer than it expects to tweak its offer for this period.

HNN also believes that the Wesfarmers' prediction of spending GBP500 million to develop Bunnings UK may be optimistic. Costs for both the development of better online/digital services, and the development of a winning advertising and marketing campaign are likely to be higher than the company expects. Spending of around GBP600 million would seem a more likely expectation, based on the experience of other retailers.

That said, as we have discussed above, HNN believes that Wesfarmers has made a good strategic move with this acquisition. It is also great to see some very deserving Wesfarmers executives rewarded with challenging roles where they will have a better chance to both develop and utilise their talents.

Kingfisher's 5-Year Changeup

Plan to unify and revolutionise DIY

UK-based European-wide big box home improvement retail Kingfisher held a Capital Markets Day on 25 January 2016.

The main purpose of this event was to release details of the company's five-year transformation plan. This plan is the outcome of the review process that Kingfisher's CEO, Veronique Laury, instigated shortly after she joined the company as CEO in early December 2014.

In 2015 Ms Laury implemented the first step of what would become a comprehensive plan to rejuvenate and realign Kingfisher. That stage is called "One", or "One Kingfisher". Its primary goal was to take the tangled network of different IT systems that underpinned Kingfisher operations, and transform them into a single, unified system.

Additionally, the company began work in 2015 on reducing the number of stock-keeping units (SKUs) that it has to serve product niches.

The transformational steps outlined during this event were based on the review process. This review extended to Kingfisher's internal operations, its relationships with suppliers, and interactions with customers. Beyond that, it extended into the extensive European community that the company serves, seeking to determine the main drivers for home improvement and DIY.

As Ms Laury noted in her opening remarks, a main driver of the need for transformations has been that the company has failed to take advantage of one of its principal advantages in the market: Scale. As a consequence, much of the focus of the report is on the unification of processes, product lines, internal operations and suppliers. Another consequence of scale is that the company has plans to move into producing and marketing "own brand" goods in a wide range of categories.

Financing change

The transformation program is expected to cost in terms of capital expenditure (capex) GBP360 million during 2015/16, and GBP500 million for each of the three subsequent years. It is projected that 36% of this capex will be spent on existing stores, 15% on new stores, 17% on IT and 19% on transformation process. Screwfix will receive 6% for its expansion.

Cash costs are expected to reach GBP800 million, with GBP480 million spent on developing the unique and unified offer, GBP210 million on developing digital capability, and a further GBP110 million on improving operational efficiency.

The expected return on this investment will be an annual profit increase of GBP500 million, consisting of GBP350 million for the improved offer, GBP50 million from digital, and GBP100 million from operational efficiencies. This is expected to last for some time.

Context

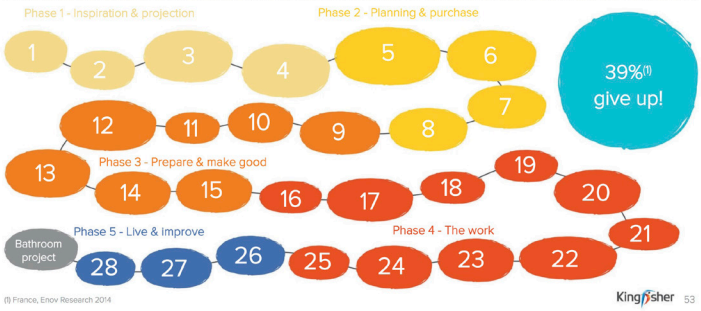
Ms Laury began her remarks by defining what the overall, external context the company operated in.

Customers/DIYers

She began with the customers, which she regards as the primary focus of any strategy.

> *75% of the European populations have been visiting a home improvement store last year, and 60% of the population in Europe has done a home improvement project last year ... They are everybody, and sometimes I'm hearing, the 'young are not doing home improvement anymore, the old are not doing home improvement', so what are you doing?*
>
> *This is not true. Those people are everyone; they are 50 female, 50 male, 42% of the population is over 50-years old, and it is almost everybody who is doing home improvement.*
>
> *The only thing which is probably a little bit different from the average which has slightly more influence, because to do home improvement, you need to have a little bit of extra money.*

We chose bathroom first being the most challenging customer project



Kingfisher's interpretation of the reonvation process

Talking about money, and I won't bombard you with numbers, but really few numbers that I do have in mind, because it's really important to understand our strategy.

...

And what is important is 60% to 75% of people are doing DIY, not home improvement, to save money because they are short of resources, and sometimes it takes them months and years to complete their home improvement project.

While she sees a large market for home improvement, Ms Laury also admits there are considerable obstacles, particularly when it comes to proficiency and skills.

But thankfully, people are brave and they are putting themselves in having a go, because to improve their home is so important to them. And what they do is they are building a team around them. And this is where the third circle is starting to happen. It's what we call the helpers.

Who are those helpers? First, because we have said that people are short in terms of money, resources, they are looking for the free work force.

So, if the brother-in-law, father-in-law, that is skilled, the retired neighbour, which has done lots of home improvement in this life. And they are looking for that free work force to help them and they have a team around them.

A natural extension of this, according to Ms Laury, is that people will seek further help from tradespeople. She is very clear that there is not a developed dichotomy between DIYers and people who employ trades, but rather a continuum:

And then you have the pros that are entering the game. When you have big structural work, people don't feel confident to do, or if there is a part of the home improvement project that they can't really cope with, then they have the pros. They have the pro for what?

For certain materials and tools, for their expertise and for their guarantee as well, and you will have seen the story of a customer that almost when the pro is getting it, it becomes part of that circle and there is a trust, relationship, that is starting to establish.

The pros, and I want to insist on that, are part of that ecosystem. They are not on the side. And when you have them, 60% to 90%, according to the country, of the light trade businesses are shopping in home improvement stores. And when you are even asking the question, are you shopping on your own in those stores, they say no. We are bringing our customer with them. This word about those things are separate, they are not communicating to each other, is not true at all.

What emerges from the above comments is something that is well known in the home improvement industry: even what are quite well-defined and very common projects, such as redoing a bathroom, contain endless complexities. Kingfisher research indicates that a bathroom project will likely require over 25 individual steps, and that it can prove so frustrating that 39% of those who start such a project give up at some stage.

To be successful, Kingfisher believes it needs to provide direct help to its customers as they make these home improvement "journeys". The company has defined nine separate stages that occur in most projects:

- Needs and triggers
- Inspiration and visualisation
- Planning and evaluation
- Purchasing and delivery
- Building and installation'
- Use and enjoy
- Maintain and improve

In terms of helping customers as they make their journeys, Kingfisher sees digital assistance as crucial to helping customers complete this journey, and intends to map digital processes against every stage, as shown in Image 1.

Those tools start with digital. Almost every home improvement journey is starting on digital. And whatever the age of the customer, whatever the country, it's true across the piece. Just as an example, the third of Pinterest's pins are DIY related, and 52% of Pinterest users are looking for DIY.

What is being planned is a comprehensive, end-to-

Digital: 'Brilliant basics'

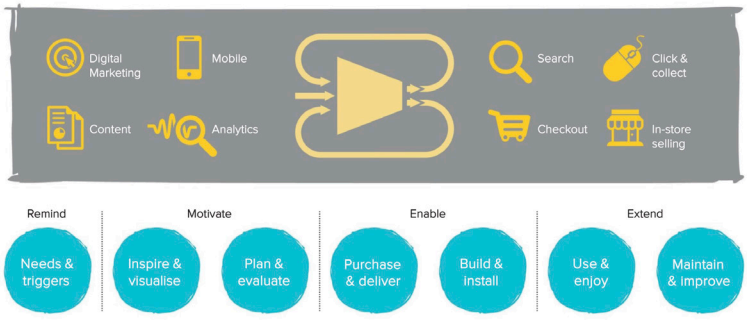


Image 1: Tracing the customer's journey digitally

end system. As Kingfisher's chief digital and IT officer, Steve Willet, explained:

A typical bathroom project is actually a wave of things. So, you've got to do tiles, you've then got to do white goods, you've got to do taps and showers and you've then got to do all the accessories that goes with that. It's not surprising, then, that people, 39% of people don't get through the process from end-to-end.

I think the other key thing about this is, quite frankly, nobody in the home improvement industry has cracked it. What you've got is a lot of people have got point solutions, so you've got people who do tile calculators, you've got people who basically got how-to's, but nobody has put it together in an end-to-end process that is seamless for the customer, and that's where we believe that there's massive strategic benefit going forward.

The products

The Kingfisher strategy as regards its products references these same points. The first task of the new product strategy is to unify supply, so as to make better use of the scale of Kingfish. Kingfisher's chief offer and supply chain officer, Arja Taaveniku explains:

The offer is today largely steered by our suppliers; meaning, also, that we are not particularly different. We are looking the same as other retailers. Our exclusive own-brands, because we do have exclusive own-brands, they stand for approximately 20% of the sales. But they sit within each operating company, and it's even like that, that if, for example, a Diall paint brush in customer hands is not the same as a Diall paint brush in B&Q.

We have thousands of suppliers supplying Kingfisher, with relatively small volumes and we haven't created the conditions for those priors to set up highly efficient production times.

This means that our buying scale of roughly GBP7 billion is largely untapped. So, we are heading into the new Kingfisher where we will have a unified offer; we will have the same products everywhere presented in the same way.

To make a task such as bathroom renovation simpler and easier, Kingfisher is moving to developing its own products. Ms Taaveniku explains how Kingfisher is seeking a direct advantage through its intellectual property:

And we have, during this past six months, really been doing all those home visits. We have also done a deep dive in customer insights on specifically our two ranges; bath and outdoor. And we have a very firm knowledge platform now on how bathrooms looks like, how outdoor environments in people's homes look like.

...

We have also done that on those 20 categories, and for example, the investigation of the ergonomics of paint brushes and really understanding the customer needs. These knowledge platforms, they enable us to own our intellectual property: the design and the quality and the specifications.

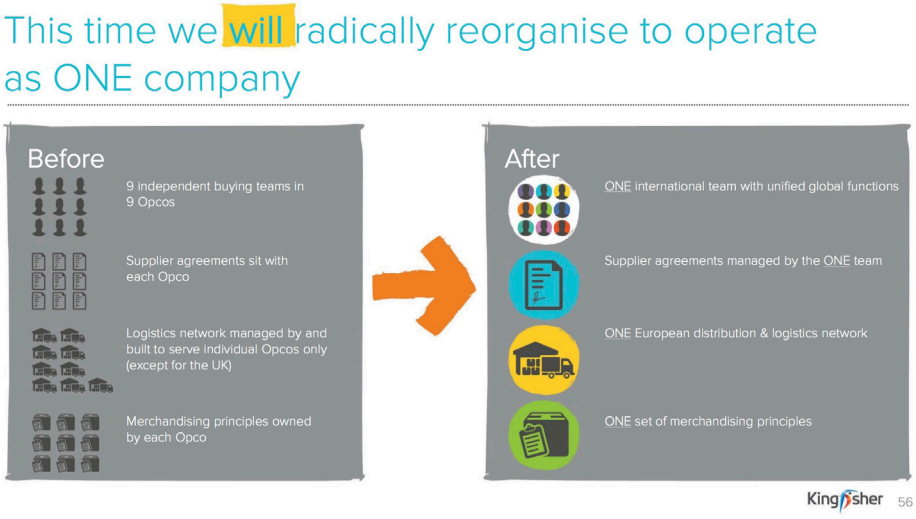
This use of their own research then brings added benefits in the production of the products:

And that allows us to control our value chain. We will control the end-to-end process, all the way from customer needs on the drawing table, contracting the products, through the factories, through the distribution network, all the way to customers.

And when you control that, and when you have full visibility into that value chain, you can together, with the suppliers, reduce all unnecessary costs that shouldn't be there.

This, in the end, ties back into the main purpose: to make doing home improvement easier for customers:

The bathroom journey today, it takes too long. It is too complex to manage, I'm sure a lot of you have experienced from this. It's too expensive for regular people's wallets. It has a lack of functionality, differentiation and design.



And tomorrow, the Kingfisher bathroom will be easier; it will be more affordable, meaning reaching out to many more customers. It will be fit for purpose and it will be functional with adequate storage, because we know that one of the main pain-points for people in their bathroom is to fit in all the stuff they have at home.

And it will be unique, again, with the design and quality owned by Kingfisher. There is no manufacturer that is doing this today, because suppliers are supplying sanitary taps, furniture, tiles, but none of the manufacturers are looking on the complete bathroom. And none of them are really basing that, or reading customer insights as we can do.

...

We will design to cost, meaning that going forward, we are going to have a target retail price on every new product we stock. And then we will design that value chain that I talked about before accordingly to hit that target retail price, and that target retail price will always be based on customer affordability.

One product she pointed out as demonstrating the benefits of this process already was the humble toilet seat.

In terms of quality, we are working hard on both lowering the cost price reduction, but increasing quality. And when we say that we want to create conditions for good homes, for people's good homes, we mean in big and in small. And one example here is that we have unified toilet seats.

And, you know, if you close a regular toilet seat, it would say either clunk or bang, depending on the material of toilet seat. We are selling lots of toilet seats in Kingfisher. And the majority of those unified ranges that are coming later this year, we will have a soft closing. So, it doesn't say clunk or bang, it just 'mmmm' quietly. It is good.

We really mean this; it's in big and in small with the good homes. It's in everything in the home. [Its] those small things that just make it better.

In answer to an analyst's question, Ms Taaveniku indicated that the first range of these new products will be seen in stores in March 2016.

Analysis

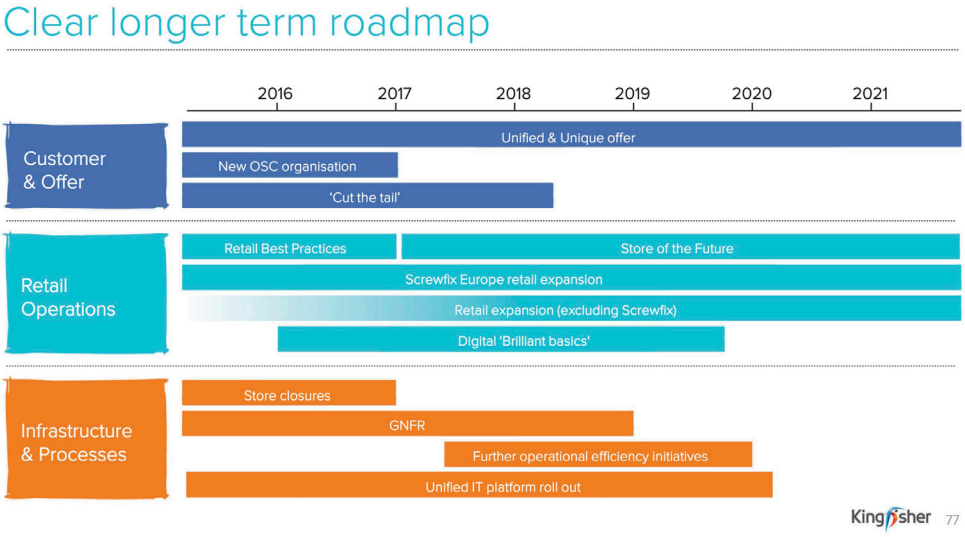
HNN has written in the past about how the centre of influence in the home improvement industry has steadily moved from manufacturers and distributors of products to retailers. Where once manufacturers determined what products retailers would stock, how much they would charge for them, and what discounts were acceptable, today it is retailers who determine their own terms of sale, and heavily influence the design of products for the market.

The Home Depot and Lowe's in the US are well-known for working closely with their suppliers. Home Depot has, in the past, designed its own bucket, and Lowe's often gets involved very early in the production phase of goods it will eventually stock.

In Australia, it is presumed that Bunnings has a high level of input into the goods that companies such as Ozito (power tools) and Kaboodle (flat-pack kitchens) produce.

The transformation Kingfisher is undergoing over the next five years will take this influence one step further. They have come to understand that one of the major blockages for people who want to do their own home improvement is the difficulty of integrating different systems. HNN has also commented in the past about how kitchens seem to be the only integrated room in the house, and that bathrooms might benefit from similar set systems.

What Kingfisher is doing is, of course, quite risky. It is also a process that is really inevitable, in terms of a 15-year timeframe. The risk is really that they are the first retailer to undertake this extension into design and production. However, that risk is balanced by considerable reward.



Woolworths Shuts Masters

Gordon Cairns calls time

The announcement that Woolworths will be exiting all of its home improvement businesses (both Masters and the Home Timber and Hardware Group) has been both unexpected - and not surprising. While Masters managing director Matt Tyson did improve the performance of the big-box stores, it was not enough to deliver solid results. His efforts did, however, indicate the direction in which development needed to go.

It does seem important to identify what is likely behind this exit decision by the recently appointed Chairman of the Board for Woolworths, Gordon Cairns. There is little doubt that the home improvement industry remains one of the most vibrant and vital areas of retail in Australia.There is also no doubt that the "big-box" approach does work in this sector.

The reality is, however, that Woolworths as a business organisation was simply not suited to this type of endeavour. This was true right from the start, when the company grossly underestimated the risks and difficulties of the new business. It is even more true now, as Woolworths limps along with "lame duck" CEO Grant O'Brien, declining margins in its main supermarket business, and trouble in other retail divisions as well.

The source of the problem

While main-stream journalists and writers have concentrated in the main on specific actions that Woolworths made in managing Masters, it seems more profitable to dive down beneath that layer.

When you really examine how Woolworths managed Masters, one particular fault becomes evident. This is the ability to make retail business decisions in areas where there is only a limited amount of data available.

At a recent industry event the CEO of Australia's trade-focused hardware supply/marketing service company Mitre 10, Mark Laidlaw, noted just how difficult he found it to make decisions without the detailed data he could access in his former executive roles in the supermarket industry. Where he could easily call up customer surveys and sales data for the past 10 years on a range of supermarket categories, nothing like that was really available in home improvement.

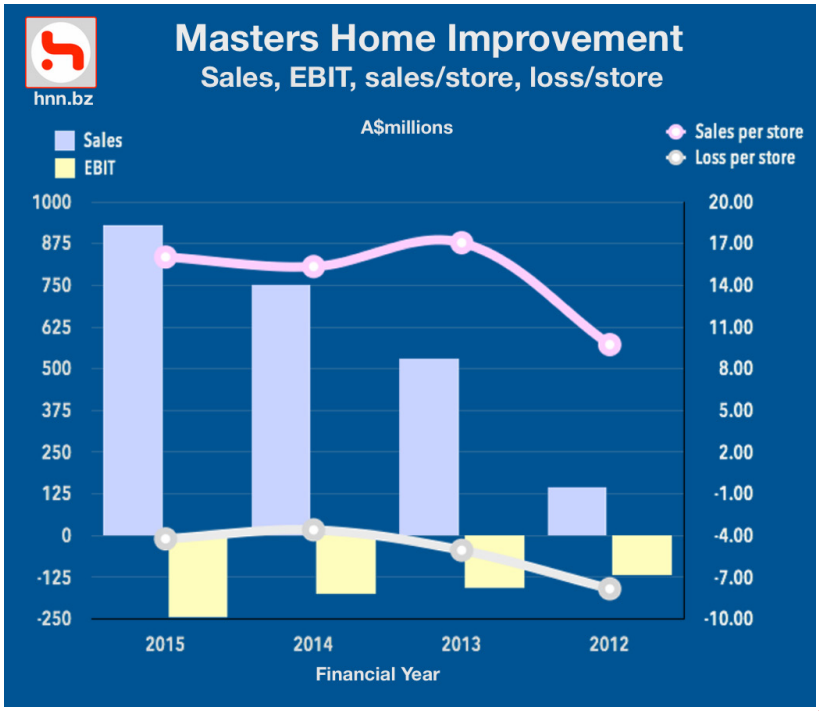
Absent that kind of detailed information, companies tend to go in one of two directions. Some take the path of "gut instinct". Someone who sees him/herself as a "leader" takes decisions based on a kind of personal narrative, with only a cursory glance at the facts. That's pretty much the path Woolworths took with Masters.

The other pathway is to realise that making decisions with only limited data is always going to be tough, and to set out finding ways to obtain better data. Usually this is done with various forms of trial and A/B testing - running two alternatives and seeing which one works best.

This was the path that Mr Tyson had started to lead Masters down. This is evident in his caution in trying out new store formats through a limited number of store formats, fine-tuning these, and then rolling them out gradually through the store network.

The difficulty is that following this path requires different forms of expertise in a business. Where companies like Woolworths are good at applying scale to solve some business problems, A/B testing requires a significant descaling instead. Companies have to evolve the nimbleness to source limited amounts of products, test them in the market, then refine their selections based on the responses and data obtained.

Woolworths has not been especially good at these nimble processes. Thus Mr Cairns' decision is not really based on market forces, but rather a hard-nosed and realistic assessment of the company's business



capabilities. He has recognised that, for Woolworths, the home improvement industry was not just an extension of its retail expertise into a new area, but instead required the development of new capabilities.

Woolworths failure has less to do with specific business decisions and practices - poorly planned store locations and development, poor choices in store stocking, ineffective marketing, simply bad cost tracking - and more to do with its inability to find the best way in which to execute.

Future consequences

While there are sound reasons behind the withdrawal of Woolworths from Masters, it is likely that those investors who pushed its stock price higher on the announcement will be a little disappointed. If the notion was that somehow instantly and magically all concerns about Masters would vanish from the Woolworths' management radar, they should perhaps reconsider. Disposing of the company, or its individual assets, is likely to be just as difficult as running the retailer. Working this out could take until close to the end of 2016.

At one end of the continuum of possibilities, Woolworths might get lucky and discover a buyer for most of Masters. The purchase of Homebase by Wesfarmers is one indication of how global the home improvement business is becoming. However, given the retailer's poor performance, finding a buyer seems a relatively unlikely outcome.

However, the other end of the continuum, selling every single piece of Masters as an individual asset, seems almost as unlikely. While Masters might not have generated enough return to justify ongoing investment, its sales have been running at over $1.2 billion a year. It is likely that the enterprise as a whole, even if it is just a small part of the whole in the end, would be worth something.

Revenue redistribution

An interesting question is what happens to the revenue that was formerly captured by Masters? In its last reported quarter, the big-box retailer made $294 million in pure sales.

Bunnings is the obvious choice for much of the revenue. To guess at the numbers, it is probably that something like 60% of the revenue will go directly to the other big-box retailer in the market. Another 30%, however, could return to independent retailers, including those operating in the Mitre 10 and HTH Group networks. The remaining 10% will be lost to the home improvement industry, finding its way to adjacent retail sectors.

That said, there is another likely consequence of the company winding down: some very big sales. It

is quite possible that in the short term the earnings of Bunnings and others will receive a slight hit during a quarter as crowds of their customers stream over to Masters for a few weekends to take advantage of some good bargains.

The long term

Looking at the longer term, what will be the effect of Woolworths' exit from home improvement retail?

Given not only the current strength of Bunnings, but also the likely consolidation of its gains over the next two to three years, it seems unlikely that any direct challengers will emerge, at least not before 2020.

Online

That said, Bunnings - like every other retailer - does remain vulnerable in some areas. The main area is in its online business, which it has steadfastly refused to invest much capital into, so far. With its recent move to acquire the UK home improvement retailer HomeBase, that could begin to change,as along with that acquisition it will also bring on board staff with considerable online expertise, in a market where online shopping rates are one of the highest in the world.

The threat in this area is likely to come from a non-specific home improvement retail operation, such as the US-based Amazon. It seems a good bet that over the next ten years or so - before 2025 - Amazon will make a more serious play for the Australian market. That would mean building distribution warehouses and other operations in Australia. Likely that will come in part as a consequences of the company developing further efficiencies in areas such as home delivery.

Specialists

The other possible avenue of challenge would use one of Bunnings' greatest strengths against it. The retailer manages to stock a very wide range of items, and is in many ways the ultimate generalist in home improvement retail. A competitor might look at this wide range, and pick out specific areas where both sales and margins are high, then specialise strictly in those areas.

For example, the three most common and highest margin home renovation projects would be kitchens, bathrooms and outdoor entertaining areas. A retailer could choose to become the foremost specialist in those three areas, offering great showrooms, and complete kit purchases to achieve specific "looks". This would be backed up help in managing these projects - providing, for example, a site inspection to assess the task, a range of services such as plumbers and electricians, and so forth.

Rigid Stealth Oil-Pulse Driver

Will oil-pulse replace mechanical impact drivers

Hong Kong-based, US-controlled power-tool company Techtronic Industries (TTI) continues to surprise with its new product developments. If its final releases for 2015 are any indication, 2016 is set to be a year of strategic development.

One of the company's latest releases, to debut at US big box retailer The Home Depot in early January 2016, is the Ridgid Stealth Force Brushless 18V 3-Speed pulse driver, Model R86036K. The Ridgid and AEG brands frequently have similar tools, but there seems to be no sign this tool will be released under the AEG brand, and thus become available in Australia.

Despite this, it remains an interesting tool to examine, as it could point the way towards future developments at TTI. In particular, this driver could indicate a direction in which TTI may be moving its Milwaukee power tool brand, as it seeks to further develop and leverage investment in its One-Key Internet-of-Things approach to tool fleet management.

The basic technology

Standard impact drivers use what is typically a spring-loaded mechanism to drive a "hammer" component against an "anvil" component, creating a series of pulsed impacts which help to drive fasteners into materials by creating high-torque input incidents.

To see exactly how this works, Nick Moore has crafted a great video using a cutaway of an impact driver attachment, along with high-speed video, to show one fairly crude version of an impact driver mechanism at work:

https://goo.gl/5hyy6r

There are a number of advantages delivered by this kind of impact driver. These include: A relatively small tool can provide a high driving force; effort by the operator is reduced; and time taken to complete fastening is considerably reduced.

However, there are also disadvantages. The two main ones are understood instantly anyone who has every used an impact driver: noise and vibration. Impact drivers are loud enough that prolonged usage – over an hour – requires some form of hearing protection. Extended use can also result in hand numbness caused by vibration.

To overcome these disadvantages, while keeping the high torque peaks of the impact mechanism, the "oil pulse" mechanism was developed in the 1960s. In this system the driver's motor spins an outer shell, which houses an oil-filled chamber. In this chamber is a rotor that is directly attached to the driver's chuck, and thus to the screw/bolt holder and the actual fastener.

While running "free", without any load, the outer shell and the inner rotor will spin in near synchronicity. As load is applied, the inner rotor will begin to resist turning. Due to the way the oil-filled cavity in the outer shell is shaped (either in a complex ovoid, or through the use of cams), the shape of the inner rotor, its use of a pair of spring-loaded blades, and the closure of a relief valve, the oil-filled cavity is divided into four areas, two of high-pressure, and two of low pressure. When the pressure builds up sufficiently, it moves the inner rotor, and the pressure is then released. This type of mechanism can deliver one or two pulses per revolution.

Comparing the standard mechanical impact driver with the oil pulse driver, we could say that the mechanical version uses a metal spring, while the oil version using the compression of the oil like a spring. The principle is really the same: the storage and then release of kinetic energy as torque.

The end result of this is that, as the metal-on-metal action of a standard impact driver is absent, the oil pulse driver is comparatively quiet. It also produces far less vibration. These two characteristics make it a much more ergonomically friendly device, and make it

easier to use in sensitive environments such as hospitals, schools and offices.

The Ridgid Stealth driver

That is the theory. How does the actual power-tool perform?

While the Ridgid Stealth driver is not due for release just yet, we're lucky that Pro Tool Reviews, one of the top US-based tool review sites, managed to get its hands on a model, and has tested this extensively. The review's findings are that the Stealth is significantly quieter when compared to an older Ridgid mechanical impact driver, and provided significantly improved fastener driver speeds. The only caveat to this is that the comparison driver was a brushed motor Ridgid model, while the Stealth uses a brushless three-speed motor.

The review notes that the number of impacts is fewer than a standard impact driver, and that the oil-pulse driver tends to produce more torsion on the user's arm. The review also declares that this torsion is "softer" than with a mechanical impact driver, and that while it does make precision driving more difficult, it is less wearisome.

The review makes interesting reading, written in the hearty, lively style of Pro Tool Reviews.

http://goo.gl/xW37wR

The competition

In some respects the development of this driver can be seen as a countermove by TTI versus Makita, which is now on its second model of an oil-pulse driver designed for non-industrial use.

The first model was a physically larger, 14.4-volt model, while the latest iteration, Makita 18v DTS141 Oil Pulse impact driver, released in 2014, is typical of the current Makita line: 18-volt, brushless motor, and highly compact.

The latest model seems to use a slightly different oil-pulse mechanism than the one described above. Instead of relying on compression of the hydraulic fluid, it relies on a system of cams to deliver the pulse power. As the hydraulic fluid is used only for lubricating purposes, this means it does not require the regular replacement it would if used instead as a compression medium.

A video of the cam/chamber in action can be viewed at the link below:

https://youtu.be/fZYuZleF_bs?t=37

TTI Strategy

While matching competing brands model-for-model is an understandable strategy, this doesn't seem to be sufficient reason for TTI to invest not only in a new tool, but in developing an entire technology.

Instead, we believe TTI may be revealing the edge of a longer-term strategy.

There are two elements to this strategy. The first is what an astute comment by the reviewer of the Stealth driver for Pro Tool Reviews, Kenny Koehler, reveals about the oil-pulse driver:

> *The Ridgid Stealth Force Brushless 18V 3-Speed Pulse Driver is more than just a quieter solution for apartment, school, and office jobsites. Its clearly higher driving performance makes it an easy choice to swap out for your traditional impact driver in nearly every application.*
>
> *...*
>
> *As these oil impact drivers, like the Ridgid Stealth Force, become more readily available, I'm hoping they'll replace impact drivers in kits just like hammer drills have replaced drill drivers.*

In other words, the oil pulse technology is not so much a specialty mechanism, as a better mechanism than the mechanical impact driver. What is preventing its widespread adoption is not capability, but simply price. As Mr Koehler states, the price of the oil-pulse driver is around twice that of its mechanical alternative.

The second element to this strategy has to do with an interesting characteristic of the oil-pulse technology: it is very data-rich. The main source of this richness is that the dataflow is two-way. Not only does it provide information about the tool itself, but indirectly about the state of the fastener as well.

This has been utilised since the earliest days of the oil-pulse technology. Originally the technology was deployed in assembly-line construction factories, which primarily used compressed air to drive their tools. The oil-pulse drivers would commonly be equipped with a mechanical shut-off valve. When the oil in the hydraulic chamber exceeded a certain pressure, a spring would release a valve, which would bleed off the air supply from the tool, bringing it to a stop. These high pressure incidents usually indicated the fastener had been set, so the bleed-off prevented the user from over-torqueing the fastener, and indicated it was time to move on to the next one.

From about 2004 onwards, the manufacturers of oil-pulse drivers began to develop a large number of patents that involved using sensors to monitor the condition of oil-pulse drivers. Typical of these is one from Hitachi Koki, which developed a patent to monitor the force of successive pulses. If the pulse force began to deteriorate, this could indicate a leak had developed in the hydraulic chamber. Early detection of such a leak

could be crucial in preventing further damage to the drive mechanism and motor.

https://goo.gl/SdkaYC

A good look into some of the innovations that were developed is provided by an article that appeared in "Assembly" magazine in June 2008, entitled "Pulse tools get smart". To quote from that article:

> *If a better pulse mechanism and an automatic shut-off are incremental improvements in pulse tools, the addition of sensors and controllers for measuring torque and angle represents a significant leap forward for the technology. In the past, accurately measuring torque and angle from a pulse tool was virtually impossible because the tool applied force in such small increments and sensor signals were too noisy.*
>
> *Today, assemblers can measure dynamic torque, seating torque, angle, run-down time and pulse counts. Assemblers can plot a curve of torque vs. time, and the controller can be set up to shut off the tool when a specific torque is reached. The controller can monitor individual fastening operations or a series of operations to ensure that an operator does not inadvertently omit a fastener. Assemblers can also collect data for statistical process control, and they can marry run-down information to specific assemblies through identification codes.*
>
> *To measure torque from a pulse tool, most suppliers use the same strain-gauge transducer employed with other fastening tools. What's different is the software for interpreting the sensor signals. Sophisticated algorithms filter out noise and translate the signals as a continuous torque event instead of a series of pulses.*
>
> *SigmaSix [a manufacturer of pulse tools] takes a slightly different approach. In its tool, a non-contact, magnetic torque sensor monitors the motion of the driveshaft.*

http://goo.gl/SPvKjP

This data-richness is an almost ideal match with TTI's One-Key development in its Milwaukee brand. Not only could future oil pulse drivers be set up to report all this rich data back via wireless connectivity to central administrative software, but the tools could also be remotely programmed to follow set patterns of torqueing.

In its simplest form: One-Key and oil-pulse technology are a very good match.

Why Ridgid?

That still leaves us with the question: Why release the oil-pulse driver as a Ridgid tool, and not directly under the Milwaukee brand, if that is the end goal?

Ridgid shares much of its product line with TTI's European property, AEG (it purchased naming rights from the original AEG company, which continues to produce its own line of tools as well). However, Ridgid also offers a range of "speciality" power tools that are not released by AEG, especially in the electrical and plumbing fields.

One interpretation would be that TTI sees the oil-pulse driver as another specialty tool, for use by installers and builders in noise-sensitive environments.

While this might be part of the overall story, it seems likely there is much more going on as well. The introduction of the oil-pulse driver through Ridgid could be something of a "soft launch" for this new category, a way of building interest and attention, before the introduction of an amped-up version – complete with One-Link wireless – in the Milwaukee line. It might also be a good opportunity for a thorough field-testing of the technology before a more mainstream launch, as the oil-pulse system is much more complex than the mechanical impact design.

Analysis

If HNN's guesses about the future role of oil-pulse drivers in the TTI brand line-up are correct, then this signals a further development of the One-Key system. The products announced so far for One-Key have been advanced products that feature One-Key as a helpful addition. A line of oil-pulse tools would be designed from the drawing board to make thorough use of the One-Key system – it would be a big part of their appeal, and a justification for an increased price.

Big-box Update

A summary of the status of Masters stores across the country. An overview of the stores at Majura Park (ACT); Bendigo (VIC); Chirnside Park (VIC); Bundaberg (QLD); Penrith (NSW); South Nowra (NSW); Ipswich (QLD); Mackay (QLD); Noosa (QLD); Perth and Adelaide.

Masters at Majura Park

The futures of Canberra's only Masters store at Majura Park and the five Home Timber and Hardware stores in the ACT and Queanbeyan remain uncertain. Magnet Mart founder Paul Donaghue was unsurprised Masters remained unprofitable, blaming Woolworths' decision to make large stores mirroring the model of American partner Lowe's.

Donaghue's stores were rebranded to Home Timber and Hardware when he sold to Woolworths in 2010. He said the chain ignored his advice on Masters' strategy and store type during the negotiations, choosing instead to make stores 20 to 30% larger than Bunnings.

He told Fairfax Media:

> *We told them to go to about three-quarters the size of what Bunnings have and they could put more stores up around Australia. Instead of having 25 hammers they'd have around 18 to 20 hammers and you'd still cover all the classifications of merchandise and also instead of paying $25 to $30 million for sites…you'd pay between $4 and $8 million…which is a hell of a difference.*
>
> *They said they wanted the hardware to develop its own culture, it didn't. In the end they just put the supermarket people in there with their ideas and it didn't work.*

Donaghue predicts the Masters stores will close and Metcash's Mitre 10 will take over the HTH Group. He said:

> *There is still an opening for a good number two, but with about a half to three-quarter sized hardware store. But they are still inefficiently operated stores, Mitre 10 and Home, because they are mainly family-operated stores that have been kept small for so long it hasn't mattered.*

In the ACT and Queanbeyan, HTH Group has included three Magnet Mart stores in Gungahlin, Phillip, and Queanbeyan since 2010. There is also a Home Hardware Karabar in Queanbeyan and FAW Home Timber and Hardware in Mitchell since 2014.

Proposed Bendigo site

Woolworths has been ordered to pay more than $11 million to a Victorian property developer for breaking a contract for the construction of a Masters hardware store. Woolworths and Masters had struck a deal with North East Solution in 2010 to build a Masters store in Bendigo, and then for the retail giant to lease the site for 12 years.

Victorian Supreme Court judge Clyde Croft has ruled that Woolworths unfairly terminated the agreement after deciding to build on a different site in Bendigo, and must compensate the developer for its losses.

Woolworths has been ordered to pay $10.875 million to North East solution, plus interest.

Masters in Chirnside Park

Masters was to be part of the expanded Chirnside Park Shopping Centre, but it is now unclear whether the works will go ahead.

On December 22 Yarra Ranges Council approved a planning permit for developer KFT to build a Masters and Dan Murphy's in the suburb of Chirnside Park (VIC). It was hoped the hardware store/liquor shop combo would be up and running by Christmas 2016.

Cr Andrew Witlox, who strongly supported the development, said he had been in contact with KFT and at this stage, plans had not changed. He told the Herald Sun: "A new owner may come on for Masters and pay Woolworths out -- I think a new owner will do a better job than Woolworths."

Cr Witlox also said if Masters was to pull the pin, the developer would not have to go back to council for another planning permit, provided an appropriate tenant moved into the site.

Masters Mackay

Staff members at the Mackay Masters Home Improvement store have been left in limbo along with 7,000 of its colleagues. Woodman's Mitre 10 manager Kerry Wooodman believes the competition from Bunnings and the selling of unfamiliar brands had spelled Masters' demise. He told the Daily Mercury: "They brought nothing new to the market. They also brought in a lot of American idea branded product which Australians didn't know anything about."

Woodman said he would be happy to see Masters close as an excess of hardware stores had meant smaller stores had struggled. He said: "For the population left in Mackay, with the business confidence

and the amount of building activity, we have got far too much square metres of hardware offering in Mackay. Like double what it should be."

A spokeswoman for Porters said the announcement reinforced that the hardware industry had been going through an "incredibly challenging and competitive" time.

Adelaide stores

Masters opened near Adelaide Airport early 2015 and began work on a second store in Noarlunga in May last year. A month later, construction started on a 13,500sqm store at Parafield Airport, which was due to open in May this year. The chain built its first SA store in Mount Gambier.

South Australia's Hardware Association has called for State Government support to protect Woolworth's smaller hardware franchises following the decision to drop Masters. The association points out Woolworths' home improvement business also includes 36 Home Timber and Hardware/Thrifty Link stores in the state.

President Paul Stewart said the association would offer any support to these stores and would like the State Government to develop a program that would see the small independent hardware stores survive and grow. He told InDaily: "Job losses from the closure of Master stores can in part be balanced by new growth of the small/medium independent hardware stores…"

Bundaberg Masters

Woolworths confirmed that Bundaberg's proposed Masters Home Improvement store would not open. According to the NewsMail, Woolworths will complete the building but it will not trade as a Masters store.

Kepnock Residents Action Group's Mary Walsh expressed her concerns. She told NewsMail: "Our concerns are…the council extended eligibility for a $1 million discount. The thing that this council needs to answer is does this development still attract the $1 million discount if it's not a Masters store and if so, why?"

Cooper's Hardware owner Steve Cooper said his store, which is based in the same region and part of Home Timber and Hardware, was going nowhere. He said: "The one thing we want to make clear is that we are a profitable operation. We are a saleable business if that's what they opt to do…"

Masters Penrith

Two days following the grand opening of the Masters store in Penrith in Sydney's outer west on January 16th came the announcement that Woolworths will close or sell its home improvement business.

Penrith Mayor Karen McKeown said a potential closure after such a short time was extremely disappointing. She told Fairfax Media: "Should the Masters store close, I would hope an astute operator could see the benefit of being part of the regional city of Penrith, which currently has an economic catchment of 500,000 people."

Kerrie Reeder, the general manager of the Penrith Valley Chamber of Commerce, which oversees the interests of 350 businesses in the area, said people in Penrith generally have "habitual" shopping patterns and have been loyal to Bunnings, but there was also room for Masters in such a fast-growing area.

Masters South Nowra

The South Nowra Masters store will not open, according to the South Coast Register. Woolworths has confirmed the almost complete development just off the Princes Highway at South Nowra will not go ahead.

The site, previously owned by a private development company from Sydney, sold for $32.5 million to APN Property Group in July 2015. The sale included the land, featuring the construction site of the Masters store, a Shell Fuel Coles Express convenience store, a Subway outlet, and a Hungry Jack's fast food complex, which have all opened.

The Masters store was to have a gross floor area of approximately 13,134sqm. Work started late last year and it was expected to open in July.

The future of a proposed $26 million Masters development at Tuggerah (NSW) -- approved last November -- is also in doubt.

Masters in Ipswich

A call has already gone out to US retail giant Costco to move into one of the two Masters Home Improvement stores in Ipswich (QLD). Springfield councillor David

Masters in MacKay

Morrison told the Queensland Times that Costco would be well suited for the area and has called for the company to investigate the possibility of moving in.

Having only opened on March last year and October 2011 respectively, the Bundamba and Springfield stores look likely to close in the coming months.

Masters in Noosa

A Masters Home Improvement Centre for Noosaville (QLD) should be all but permanently shelved, according to Mayor Noel Playford. Cr Playford does not expect any new buyer of the financially troubled Masters chain to contemplate building in Noosa.

Joint Masters partners Woolworths and US company Lowe's in 2014 won a Planning and Environment Court appeal against a development refusal by the former Sunshine Coast Regional Council in 2013.

Noosa Council defended the action unsuccessfully. Cr Playford told Noosa News: "There's an approval granted by the court for a particular style of operation... so obviously if that's been ditched by Woolworths then it's not likely that will be constructed and operated."

Mayoral candidate Councillor Sandy Bolton said if the Masters land was purchased as part of a retail chain or individually, the development approval would carry over, but any changes would need to go back to council. He said: "Ultimately it will come down to who purchases it and what their intent is."

Perth stores

The future of Perth's nine Masters stores is unknown. The retailer began opening outlets in WA in 2012, with the most recent stores in Mandurah and Landsdale opening less than a year ago. The other stores are scattered around metropolitan areas, in Bayswater, Bibra Lake, Ellenbrook, Forrestdale, Joondalup, Baldivis and Butler.

Curtin University school of accounting Professor John Evans told Fairfax Media Woolworths would struggle to find a buyer willing to take on the entire 63-store company, and would likely move to re-purpose its warehouses or sell them individually to other businesses.

As for the company's stock, Professor Evans said Masters would likely try and sell-on as much as possible to other hardware stores and overseas companies before holding an auction. He said: "They're still trying to maintain value for their shareholders. They'll be looking for buyers, ultimately it may go to an auction market where certain components are auctioned off."

Masters Exits Developments

Developments cancelled

Masters is not part of a new development at Parafield Airport near Adelaide, one of many sites that it is exiting around Australia. Cromwell Property Group acquired the airport site in June last year for a new fund with plans to complete a new $27 million Masters store by May 2016. A contract between Woolworths and Cromwell means Woolworths has to come up with a new tenant.

The site is one of dozens in metropolitan and regional areas that Woolworths had earmarked for future Masters stores, but which will no longer proceed as the retailer seeks to sell or wind up the business.

Woolworths owned some sites through its Hydrox Holdings joint venture -- 2015 annual accounts show a site development value of $288 million -- but others were in partnership with Cromwell, APN Property Group and private developers. The retailer owns about 60% of the sites across the country and leases the remainder.

A spokeswoman for Woolworths declined to say exactly how many projects were in the pipeline, but they would include a $60 million Masters Macquarie Park due to open in 2017, a $30 million Masters in Townsville and others in Lake Macquarie, Bundaberg and Orange.

Another Masters store under construction in South Nowra, bought last year by APN, and two more being built in South Australia, will also not open.

Steve Lerche, national director of retail investment at Savills Australia, said Woolworths could struggle to recoup some of its acquisition costs for sites, particularly where it had paid a "handsome price" to acquire a site in competition with Bunnings. He told Fairfax Media:

Where they have bought sites in the past, they may have paid over the odds to get the right location and may not get that price now.

Hardest hit could be sites in regional areas, he said, especially if there was already a Bunnings trading. But, he said some sites might appeal to owner-occupier retailers like Costco or Harvey Norman. Alternatively through rezoning, they could have a higher and better use.

The most to lose could include nearby retail tenants, which relied on Masters for foot traffic, according to Tony Draper, national director of large-format retail at Colliers International. He said:

A lot of them opened so they could be in close proximity to Masters.

But Draper believes Bunnings was likely to be a winner. He said:

They're back on their own without a competitor. There's going to be an oversupply of space so they will be able to pick up sites at better prices.

It is said to be already targeting at least nine Masters sites in NSW and Victoria. Chris Parry, director of large format retail for CBRE said:

The NSW market is undersupplied and this will provide the opportunity for other specialty large format retailers if Masters choose to vacate the stores.

According to property agents, the well-located suburban stores such as in Toorak Road, Melbourne, would be easily released to other hardware chains, such as Mitre 10. The average store is about 13,000sqm.

There are expectations that Woolworths will suffer some losses from breaking leases. Most retail leases are for five years with an option to extend a further five years. A Woolworths spokesman said:

Masters is committed to doing the right thing by our landlords and developers and we will be dealing with sites where construction is planned or underway on a case-by-case basis.

Heath Crampton, national retail director at valuation firm m3property, said a reduction in competitive tension might result in land values decreasing. He said that because many Masters stores were within a short distance of Bunnings, which was first to pick sites in most areas and thus had the best sites, it might be difficult to sell the entire network in one line.

It may be that other large format retailers will be interested in the good sites. A sale may also provide an opportunity for overseas large format retail chains.

Savills Australia head of research Tony Crabb said the preferable outcome for owner and nearby tenants would be for a swift sale of the entire portfolio, including the development sites. He said:

Having it sit idle is the worst possible outcome.

But, he said because the sites were so spread out, they did not stack up well from a logistics point of view.

Indie Store Update

Hardware store bucks the trend

Some independent retailers have survived by doing what they have been doing for decades. For Glen and Lisa-Jane Stagg, owners of Mt Lawley Hardware, survival has meant watching about 100 independent hardware stores close down, including four in the past year, in the face of Bunnings.

The store is also operating in a time where basic DIY is disappearing, according to Glen Stagg. He told The West Australian: "Furniture these days you don't sand back and repaint, you throw it out and buy a new one from Ikea."

Stagg credits service, expertise and support from the community for keeping the lights on. He said: "We've got good products and we try not to sell the cheap junk that you get in some stores. We'll hang in there as long as we can.

"There's not quite the loyalty there used to be. People don't go to the hardware store. They go to Bunnings — that's what they say. We're hardware. We're not a supermarket."

Andersons Hardware reflects on closure

Owner of Andersons Hardware in Naremburn (NSW), Wes Waldock, says changes to parking outside his store have dealt a killer blow to the shop, as well as the popularity of big boxes, which offer affordability, an endless range and, importantly, plentiful car parking.

But he can also feel a revolution coming. Waldock told The Weekend Australian: "There'll be a resurrection. The big guys will stop carrying things that aren't profitable once they've got a monopoly, and I think the smaller hardware stores will come back selling more obscure things; better-quality stuff others won't stock.

"It's a bit like how good bakers were reborn when people got over what they could get at supermarkets."

After 27 years running the business, Waldock is defeated after his own five-year battle with pricing pressures and changing consumer preferences. He said: "I've had a good business, but it's just been strangled."

The first Bunnings in the area opened in 2000, and the two stores coexisted happily enough for more than a decade, with Waldock deliberately stocking products and ranges that targeted Bunnings' weaknesses.

Where they carried expensive products, he'd include a selection of affordable items, and where they had a narrow range, he'd offer the works. He's thankful he didn't follow Masters' lead. He said: "They went into white goods, and that was a mistake."

Kitchens and cabinetry was another blunder, he said, as they are products requiring a level of product knowledge and customer service many store staff aren't equipped to give. They are also labour-intensive.

But what advantages he had over Masters and Bunnings were not enough to make ends meet. More recently, Waldock faced additional pricing pressures as suppliers charged independent store owners higher wholesale pieces to make up for losses sustained in bulk contracts to Bunnings, Masters and other chains.

Other changes are more unsettling, such as a "supermarket mentality" according to Waldock, in which customers have a habit of frequenting big box stores. He said: "The big guys sell what they want to sell rather than full range, but people won't accept that from me.

"They'll say, 'why don't you have stock of such and such?' and I'll explain I only keep a limited number because it's not a high-turnover item. But they need it now and they don't come back because you don't have it. But if Bunnings doesn't have what you wanted, they'll always go back -- it's part of the supermarket mentality."

Then came parking changes that turned the suburban street into a near clearway. Staff at the store felt the shift almost immediately, but customers didn't mind -- after all, there was a Bunnings five minutes down the road with all the parking they could ever need.

Tool store exits Ipswich

Glenfords Ipswich part owner Tony Childs recently had the difficult task of telling his remaining staff that the 30-year-old Queensland-owned tool shop would be shutting its doors. The writing has been on the wall for some time, with the business reducing its staff by 50% over the last year due to a decrease in sales.

Although the recent opening of Bunnings Warehouse directly across the road arguably had some detrimental effect on business, Childs said he aimed his product range at local tradesmen and it was a lack of construction work that had ultimately broken Glenfords Ipswich. He told the Queensland Times: "…All the development is happening at Ripley and Springfield and they are using out-of-town tradesmen. I've got Ipswich builders coming in here and crying poor because they've got no work.

"We aimed ourselves at the trade market and Ipswich builders that were employing 20-30 people are now down to two." The West Ipswich business was first opened in 1985, with Childs and another part owner taking over in 1997. Childs owns another Glenfords outlet at Gladstone, which he said was still doing well.

Wesfarmers Industrials Team

WIS MD Rob Scott focuses on performance

It's probably not surprising that sporting analogies are used when former Olympic rower and managing director of Wesfarmers Industrials division (WIS), Rob Scott discusses the challenge of leading a business heavily exposed to Australia's struggling resources sector. He told The West Australian:

> *Someone joked the other day…there's probably a fair bit of similarity between rowing and the industrial sector that you are in at the moment — very high lactic and pain is required to get through the current environment. High lactic acid, high intensity, high pain.*

A dual Olympian who stroked the eight at the Barcelona Olympics in 1992 before picking up silver with David Weightman in the men's coxless pairs in Atlanta in 1996, Scott has possibly the toughest job among Wesfarmers boss Richard Goyder's leadership team.

In the position since August, Scott's responsibilities include coal mines in Queensland and NSW, a portfolio of industrial consumables businesses led by the Blackwoods chain, CSBP fertilisers, Kleenheat gas, Queensland Nitrates and 13.7% of domestic gas producer Quadrant Energy.

In the year to June 30, the parts that make up WIS — the division was established in August alongside Scott's appointment — recorded earnings before interest and tax of $353 million, down 26.8% on 2013-14 because of a weak performance by the coal mines and industrial and safety units (such as Blackwoods, Bullivants). WIS contributed 9% to Wesfarmers' group EBIT of $3.8 billion.

The division's return on capital was just 8.3%, down from 11.7% a year earlier and lagging the Bunnings-Officeworks juggernaut (28.2%) and Coles (11%). Wesfarmers' group return on equity was 9.8%. Few companies in Australia watch their divisional returns on capital as carefully as Wesfarmers. This is a major factor in the conglomerate's corporate success.

Scott dismisses market speculation that WIS' struggles mean his role is to clean it up and prepare the individual parts for sale. The starting point, he says, is to reinforce a focus on cost-cutting, improving efficiencies and using innovation.

And he is quick to point out that despite its challenges, many of its parts are market leaders, either in scale, product quality or cost performance. He said:

> *Each of the divisions is quite well positioned in their respective markets…My job and my leadership team's job is to have a single-minded focus on what's good for Industrials and how we can make Industrials better within Wesfarmers. We do have an ambition to grow our industrial businesses but only if it delivers returns to shareholders, so with a very strict financial lens on it. Part of my job is to make the most of the businesses we have and find opportunities to invest for the future.*

Scott highlights that Kleenheat's take-up among household gas consumers "is in line" with its (bullish) expectations while customer feedback about the Blackwoods restructure has been positive. Its Curragh and Bengalla mines "are some of the lowest-cost mines and highest-quality coal in the world".

It suggests Scott sees sufficiently strong building blocks in WIS, not to mention the experience of a seasoned workforce "who have been through many cycles in the past and that experience is very valuable".

Scott is seen as one of the leading internal candidates for the top job when Goyder moves on. A pick-up in performance by WIS would only strengthen his case. Not surprisingly for a Wesfarmers executive, Scott brushes off talk about his CEO ambitions and emphasises the collegiate nature of the company's senior executive ranks.

Rob Scott

Like many of his colleagues, the Macquarie University and Australian National University graduate has completed the Advanced Management Program at Harvard Business School. He goes on to say:

I know I can achieve a lot more when I work in teams than I can as an individual. And I guess I've learnt over the years you should always hire people who are better and smarter than you. And that's my focus, to try to assemble really high performing teams and try to create an environment for the team to be successful.

Rowing is synonymous with teamwork. You might be in an eight and you can be the best rower in the world and the eight will go slow. It's about getting the best team and letting that team prosper in that environment.

Scott is on the road most weeks — WIS' sphere stretches to New Zealand and Britain — but says it is vital as a leader to "get closer to customers and closer to the business". He explains:

It's actually something I thoroughly enjoy. It can be easy at times to get stuck in boardrooms and meeting rooms. You just need to make the time available. Every time I get out to one of the businesses or meet with customers or meet with suppliers, I learn more.

Something I have been trying to do a lot is to organise listening sessions with team members a few levels down in the organisation. I learn more from those sessions about the business than I do when I'm sitting in the executive committee.

Moving around has always been a big part of Scott's life, even before he joined the Australian Institute of Sport's rowing program in Canberra.

As the son of parents who were teachers, Scott spent his early days moving around WA, with stints in Kalgoorlie and Dumbleyung before completing high school at Rossmoyne. It was there that he caught the rowing bug when it was offered as a sport option. He later joined the Swan River Rowing Club. He said:

When you are in high performance sport you wake up every day trying to be the best in the world. You may not always get there but your whole focus is to try to be the best in the world and to leave no stone unturned. And I think in business, and certainly in Wesfarmers, it's no different.

Rowing still plays a role in Scott's life. He is president of Rowing Australia and while his days on the water are over, he keeps a rowing machine "locked deep away in the basement that I get on from time to time".

Woolworths/Hills license still applies

Hills will enforce an exclusive licensing deal for its Hills Hoist brand that it struck with Woolworths in late 2014. The company is now better known for its technology services but its portfolio of legacy brands includes the Hills Hoist clothesline.

Hills signed a deal in December 2014 for Woolworths to take over the manufacturing, marketing and sales of more than 240 Hills products, including its iconic Hills clotheslines. The bulk of those items were to be sold through Masters and Home Timber & Hardware stores.

After the company signed the 20-year distribution agreement, the Hills Hoist products were delisted from Bunnings.

Under the agreement, Woolworths pays Hills a guaranteed minimum annual licence fee for at least the next seven years. This gives the supermarket group exclusive rights to the Hills brand both here and overseas on about 240 products including garden products, clotheslines and garden sprayers.

But Woolworths' announcement that it would seek to sell or liquidate Masters could ruin Hills' distribution and sales expectations. If Masters and Home Timber & Hardware are sold, Woolworths will have less need for the Hills brand.

Hills chief executive Grant Logan told The Australian that the decision to wind up the Masters and Home Timber & Hardware businesses would not impact Woolworths' obligations under its agreement.

Logan said the contract ensured Woolworths would still have to make minimum royalty payments of about $2 million a year under their joint venture. He said:

> *Woolworths takes the revenue for the products (they sell); our revenue is effectively the guaranteed royalty.*

He conceded Hills would benefit from sales driven by Woolworths in the future but this was "some distance out".

A spokeswoman for Woolworths said the retailer was committed to the deal with Hills.

> *Woolworths has said it will ensure we do the right thing by those we have agreements in place with, as we progress towards exiting from the home improvement JV.*
>
> *We will continue to be stock these products in Masters and Home Timber & Hardware throughout this process. It should be noted that Hills products are not exclusive to Woolworths group stores and are retailed through Mitre 10 and Bing Lee, among others.*

Logan said the royalty stream earned from the deal with Woolworths was tiny in comparison with its other business activities.

Acquisitions continue for JELD-WEN

Global windows and doors maker JELD-WEN has entered into an agreement to acquire TREND Windows & Doors, a manufacturer and supplier of windows and doors based in Girraween (NSW).

TREND produces aluminium, timber and thermal energy efficient windows and doors under a variety of brand names including Trend, Synergy, Quantum, Quantum XP Windows, Crestlite (commercial), Trend thermAL Energy Efficiency, Thermashield, SoundMizer and Xtreme Bushfire Protection Windows & Doors.

Founded in 1968, TREND has a manufacturing and showroom network across the eastern seaboard of Australia. The addition of TREND will expand JELD-WEN's family of brands in Australia, which now includes Corinthian, Aneeta, Regency, Stegbar, Airlite, William Russell Doors, and JELD-WEN Glass.

The transaction is expected to close in the first quarter of 2016, and is subject to customary closing conditions.

Upon closing, the transaction will be the fifth acquisition for JELD-WEN in recent months and the second acquisition in Australia.

Most recently, the company announced the acquisition of LaCantina Doors, a manufacturer of folding and multislide door systems based in California. Other recent acquisitions from JELD-WEN include Karona, a stile and rail wood door manufacturer from Michigan; Dooria, a provider of residential and commercial wood doors for the Swedish and Norwegian markets; and Aneeta, a manufacturer of sashless window systems in Australia.

Home Depot works with gardening startup

A US-based startup is bringing the DIY phenomenon to gardening, along with Home Depot. The company, Seedsheet, sells a kit for growing vegetables at home.

The biodegradable sheet comes with seed pods affixed to it; each pod contains seeds and a small amount of soil. All customers have to do is lay the sheet on top of a soil bed like a blanket, and water it. Once watered, the pods immediately dissolve, and the sheet serves as a barrier to pesky weeds.

The appeal for amateurs interested in gardening is obvious: do it yourself, without any expertise needed. They can set it up fast (30 seconds, the company says on its website), and Seedsheet offers six different sizes to fit even the smallest of spaces like a windowsill box. The kits run from US$35 up to US$250 for the biggest size, 10 feet by 16 feet.

Will hipsters really spend US$35 or more when they could buy seeds for a few dollars and figure out on their own how to plant them? Home Depot thinks so. Beginning in January 2016, Home Depot is selling Seedsheet online at its corporate website. Seedsheet has already been selling the kits at its own website, but the platform of Home Depot is a major score for the small startup. Bethany Wood, an online buyer for the home improvement chain, told Fortune magazine:

> *I was excited about it because of the growth with millennials in the container gardening space, and how simple it makes it for everyone to grow their own edibles. We are seeing urban-gardening trending. Millennials are becoming more interested in growing their own food and in sustainable awareness — that movement is what we're keying in on. Gardening starts as an intimidating thing to do, and Seedsheet takes all that guess work out.*

Indeed, Seedsheet founder and CEO Cameron MacKugler likes to say that with his product, planting a garden is as easy as making a bed. MacKugler came up with the idea in 2013, when he was house sitting on a dairy farm. At the time, he was working for an architecture firm as its LEED (Leadership in Energy and Environmental Design) project manager. While checking out the house's outdoor garden, he said:

> *I had this epiphany: I love having access to this amazing food, in my backyard, that I can harvest in my boxers. So how can I take the awesomeness of this experience and condense it into something a recent college grad, with limited money and minimal space, can cultivate?*

MacKugler sketched out a version of what eventually became the seedsheet, a fabric layer that spaces out plants (so there is no need to worry about them encroaching on each other) and blocks weeds from sprouting up. At first, he tested various materials for the sheets: toilet paper, newspaper, paper towels, and craft paper. He said:

> *Lo and behold, they all worked. It's not too difficult to get a seed to germinate once it's in soil and exposed to moisture.*

He settled on two layers of dissolving paper, placed atop soil and watered. Then he sent it out to be tested in different environments around the US.

After the testing, Seedsheet took to Kickstarter last year and raised US$30,000 in funding. The company has since raised two more small rounds to get it retail-ready for Home Depot. To date it has raised US$600,000, including the Kickstarter funds.

In the US, consumers spent US$30 billion on their lawns and gardens last year, according to the National Gardening Association. One in three households now grows its own food. MacKugler says that even though Seedsheet is focused on urban millennials, he hopes it can access outdoor gardening veterans too. He said:

> *If you were to go outside, poke holes, and then meticulously weed around it, the cost-saving of our giant Seedsheet is large.*

Home Depot, for now, thinks that younger gardeners are the sweet spot. Wood said:

> *If you're 60 and an avid gardener, this probably isn't the product for you.*

MacKugler hopes that the online sales will prove otherwise.

Lowe's partnership with Google

Google parent company Alphabet Inc. has partnered with US home improvement retailer Lowe's to debut a new mapping technology that will make home make-overs faster and easier.

The two companies say the technology will be ready and available by mid-2016, the same time that Lenovo Group has said it will put the first 3D smart-phone on the shelves.

Google has developed a 3D mapping technology, dubbed Project Tango, that uses depth sensors in order to recreate indoor spaces, and Lowe's is the first firm to take advantage of the tech giant's efforts.

Lowe's customers will be able to use the 3D map to see whether specific items from Lowe's would fit within a particular space or room before ordering them online or having them delivered. The companies say it will do away with the hassle of having to input a room's dimensions and measuring out whether furniture and appliances will fit.

The mapping capabilities will also give consumers a good idea of how the item will look within the room without much effort.

According to the Wall Street Journal, Lowe's has already been working for months on its app with Google that would render the 3D mapping technology. It is an extension of the retailer's earlier efforts with virtual and augmented reality at its innovation labs.

It has a home improvement simulator called the Lowe's Holoroom that lets shoppers essentially build 3D models of rooms. Lowe's work with holorooms attracted Google's attention for Project Tango, said Kyle Nel, executive director of Lowe's Innovation Labs.

There are currently about half a dozen Lowe's stores in the US where customers can use holoroom capabilities using a variety of technologies including Facebook's Oculus Rift and Google Cardboard.

DIY sales surge at UK's Grafton retail arm

UK-based builders merchanting and DIY group Grafton has announced a 6.3% increase in revenue in its preliminary results for 2015 and said it was expecting operating profit of up to GBP127 million. Revenue for the year came in at GBP2.2 billion, the company said in a trading statement. In constant currency terms, revenue rose by nearly 9%.

Grafton said that its merchanting operations -- which accounts for over 90% of group revenue -- performed strongly, particularly in the Irish market.

It noted that low interest rates, growth in house prices and a resurgence in consumer confidence among Irish shoppers gave rise to increased activity in the building and home improvement market.

In its retailing operations, Grafton said that an increase in employment and disposable income supported the recovery in retail spending which spread into the DIY sector in the second half of the year.

It said that the pick-up in demand and promotional activity contributed to a strong second half growth in its Woodie's DIY business. Grafton's CEO Gavin Slark said:

> *2015 was a year of significant development activity for the group with the continued expansion of the Selco branch network, bolt-on acquisitions in the UK merchanting market and the purchase of Isero which now gives the group a presence for the first time in the Netherlands.*

UK merchanting revenues rose by 8.9% especially in the plumbing and heating categories. Irish merchanting revenues rose by 10.9% in the year to the end of December -- on a constant currency basis -- but dipped 0.1% when converted to sterling. The company said:

The merchanting business in Ireland continued to perform strongly as record low interest rates and growth in house prices and housing transactions supported increased activity in the residential repair, maintenance and improvement and new build markets against the background of an acceleration in the rate of growth in the Irish economy.

Consensus amongst analysts is for Grafton for an annual profit of nearly GBP131 million -- which would be up from GBP110 million in 2014.

However, the competitive nature of the UK market and the ongoing weakness being seen in Belgium has led Grafton to reduce its profit growth guidance by 3-4% against market expectations.

B&Q, Homebase online sales surge for Dec 25

UK-based online traffic analysis company SimilarWeb has reported that online traffic at UK home improvement retailers spiked on both Christmas Day and Boxing Day 2015.

Home Retail Group-owned Homebase in particular benefitted. It experienced a 138% increase in traffic. The Kingfisher-owned B&Q also had substantial gains, with an increase of 94%.

SimilarWeb highlighted gains made by dedicated shopping apps for mobile devices, with Argos – also owned by the Home Retail Group – showing a 41% increase in its traffic via its dedicated app.

This follows on from research findings released in early December 2015 by the company which indicated that US retailers had seen a 60% rise in app use during the post-Thanksgiving (end of November) online sales period, known as "Black Friday". (This term is a reference to the fact that many retailers "enter the black", ie., begin to show profit on overall operations for the calendar year, in late November.)

These gains were considerably higher than the average traffic increase for large retailers in the UK, which was 16%. However, supermarkets also experienced a surge in web traffic of over 60%.

Christmas Day versus Boxing Day

Figures from UK-based PCA Predict indicate that in terms of sales, Christmas outshone Boxing Day in the UK, reversing the trend for the past five years. This shift is seen as being, indirectly, a response to the success in the UK of the somewhat artificially created Black Friday online sales day. With this gaining in popularity in 2015, UK retailers were led to discount more heavily in the immediate pre-Christmas Day period. According to Jamie Turner, chief technology officer of PCA Predict:

> *As retailers started their sales early this year, we did not see the usual surge in online shopping on Boxing Day. Instead, consumers had the convenience of being able to browse online throughout the entire Christmas period to find deals and discounts. This demonstrates the monumental impact Black Friday has had on both the industry and consumers' shopping habits this year and it will be interesting to see if this trend will continue next Christmas.*

PCA's data backs up the findings of SimilarWeb in terms of mobile phone usage has gained considerable ground in ecommerce purchases. The company's data indicates that 42% used mobile phones to purchase goods on Christmas day, while 44% used desktop computers. Tablets had a much smaller share.

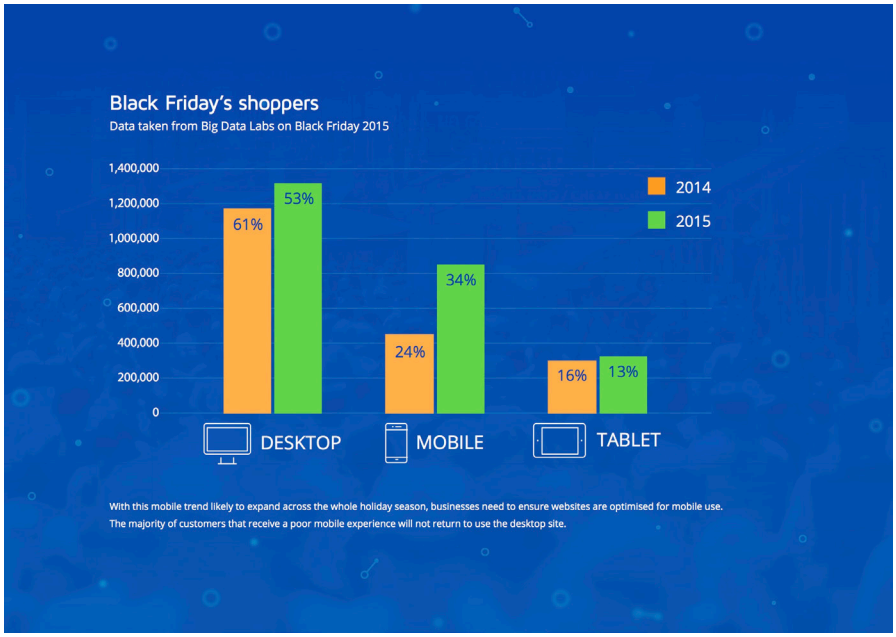
High-end retailers have benefitted from the surge in sales as well, with London-based luxury goods retailer Selfridges reporting its online sales over Christmas and Boxing Day were double those of 2014.

The Black Friday Phenomenon

The rise in the prominence of the Black Friday artificial sales day in the UK has some importance for Australian online retailers. In the UK the day gained initial importance through online retailer Amazon. In line with its US offerings, Amazon began providing special sale items on the Friday after the US holiday of Thanksgiving, and this was soon picked up by other UK online retailers.

There is the potential that, beginning in 2016, Australia will experience a similar phenomenon. The day serves the purpose of providing a pre-Christmas purchase sale, enabling online purchasers to buy presents with a strong assurance they will receive their goods well before Christmas, with additional time for returns or exchanges as required.

Again, data provided by Predict indicates that mobile phone usage rose considerably for the Black Friday sales day in the UK:



Mitre 10 NZ creates web series

Mitre 10 New Zealand is continuing to take DIY digital by locking up a few punters in one of its stores with celebrity architect George Clarke and filming the results for a new web series called the "Mitre 10 Lock In". General manager – marketing Dave Elliott said:

> *It's going to be tough, but we have great faith that our DIY experts will come through, completing the project before the sun comes up.*

And, Clarke who is known for his series "George Clarke's Amazing Spaces" will be there to assist (and hopefully attract bigger audiences).

This web series is not the first for the hardware retailer. Mitre 10's Easy As instructional videos have already been successful. Elliot said in an interview that 11,000 people were watching the instructional videos each day in mid-2015.

The videos add to the 135 million "how-to" videos on YouTube and tap into the 70% growth in "how-to" searches recorded in the middle of last year. Elliott emphasises the need to move campaigns online. He said:

> *Advertising is very important for us in terms of driving traffic to our stores, so therefore our advertising activities need to be effective in achieving that. And retailing is a response to culture. So, if you couple those two things together, you kind of see that we need to adapt and speak to customers where they are in an effective way. And, without a doubt, more and more people are moving online through their digital devices.*

Elliot also reported a 20-30% shift in advertising spend from traditional media to search engine marketing, YouTube, pre-rolls and display. He said:

> *It's a matter of a brand being there right through that journey, and the online videos play an important part in giving them that information. More and more people are [relying on online videos]. You might've heard that the internet will have to double in size by 2017 just to accommodate the growth in YouTube, and you kind of see that that's where people are heading.*

The Lock In web series is set to be released later this year.

Axis Gear automates window shades

Axis Gear is a device that attaches to the pull cords of existing window shades, and provides the means to automate their opening and closing.

Axis Gear launched as a crowd-funded project through Indiegogo in October 2015, and completed its project on 19 December 2015. The original funding goal for the project was US$100,000, and it managed to gain US$119,500 in funding. The company expects to launch its product on the market in time for the holiday season in December 2016. Indiegogo backers should receive their products before November 2016.

For the funding launch, individual units were originally sold for US$95, which gradually increased during the funding to reach US$145 each, with packs of four for US$500. The projected price for the finished product is US$195 per single unit.

How it works

The Axis Gear could represent the type of product we will be seeing much more of during FY 2016/17. It's major difference as a product is that, instead of seeking to replace existing technologies – such as thermostats, smoke alarms, security systems, light switches, etc. – it presents itself as a no-fuss addition.

Power source

To begin with the issue of installation, the Axis Gear functions through an independent power source, which means there is no need to connect it to a dwelling's electrical system. Not only is that more convenient (especially in Australia where DIY electrical work is illegal), but it also opens up the market to people renting, as well as homeowners.

Power is provided through two sources. The first, and cleverest source is the use of solar power cells that charge an internal Lithium-ion battery. These solar cells are engineered to work best in conditions of inside, indirect lighting. To back this system up, for installations which are low-light, conventional AA batteries can also be installed.

Sprocket drive

The sprocket drive in the Gear is the key to one of its best features: it is said to work with just about every blind and window shade that is made today. This includes roller blinds, vertical blinds, curtains, and "Roman" shades. The sprocket drive adjusts to a wide range of the typical beaded cords used on shades.

Installing the cord into the gear is a simple operation of taking a small cover off, threading the cord around the sprocket drive, then putting the cover back in place.

While the unit is quite small, its internal drive can exert around 9kg of force, making it more than a match for the majority of window blinds.

Basic operation

Even without any additional home automation systems, the Axis Gear provides some significant advantages. Every Gear can be paired up with other gears, which means that when the open/close buttons on the unit are pressed, all the Gears in the group respond. As most blind installations consist of several window installations, this saves considerable fuss adjusting each blind individually.

Opening and closing curtains and blinds is controlled by an illuminated touch strip along the side of the Gear: top open, stroke this upward, to close, stroke downwards. Open and close can also be achieved by pulling on the beaded chain of the blinds. To return to fully manual operation, the Gear can itself be simply switched off.

Basic automation

One step up the automation chain is the use of the Axis Gear mobile app. The most obvious function is the ability to remotely control an individual Gear, or a group of Gears.

The major advance the app provides is the ability to schedule blind opening and closing. For example, the blinds can be set to open just before the time you normally wake in the bedroom. Blinds elsewhere in the house might open earlier, giving the inside air a chance to warm in the morning sun. And, of course, scheduling the blinds to make sure they are closed while you are out of the house ensures that the dwelling will stay cooler during the day, adding to comfort and potentially conserving energy that would otherwise have been

spent on air-conditioning.

An additional app feature is setting scenarios. These are grouped settings for the blinds in the dwelling that correspond to certain standard events. For example, one setting might be for daytime TV watching, one for very hot days, another for entertaining.

Full automation

The Axis Gear communicates using many of the standard home automation networks, including Zigbee and Google's Thread and Weave networks. This means the Gear can be integrated with other systems, such as Google's Nest thermostat, or the FitBit activity tracker.

The Gear could be set to open or close blinds depending on the interior temperature. Linked to the FitBit, the Gear could open the bedroom curtains when it senses the user has woken in the morning.

Analysis

What makes the Axis Gear a little unique in the home automation market is that it indicates how much thought has been given both to the device's functionality, and to the market it is seeking to enter. It is designed to be as "unthreatening" as possible, offering everything from very simple, very limited functions, up to highly advanced automation.

This means that the Gear is accessible from both ends of the home automation market. For enthusiasts, it represents a great way to further build-out an existing system. For people with no home automation currently, it could be the first purchase that begins to build an interest in what could be possible.

Sensors that find construction tools

Time is money. And it adds up fast when there are big construction crews and subcontractors waiting around while other workers locate equipment and supplies to stage the next phase of a building project. But radio frequency location and the Internet of Things is quickly changing the game, from tracking material shipments to finding the keys for the bulldozer.

And that's the niche market Primal Sensors, a start-up from Dallas, is focused on. It has developed jobsite equipment tracking technology.

Primal Sensors' three-person team has been working with RFID and beacon technology for a couple of years. Co-founder Jerry King said most of the innovations in construction have been focused on the pre-planning and designing sides of the business. Now, there's more focus on operations. He said:

The construction industry itself has been adopting new technology over the last 10 years. It's kind of late to the game when it comes to developing more efficient processes. It's people-driven. It's a human experience. But it's not one that is so gung-ho about replacing people that it's adopting a ton of technology. But it's going there.

Primal Sensors uses small, rugged sensors that users attach to equipment -- be it a jackhammer, a bulldozer or even an employee -- and at least three beacons placed throughout the construction site track them and provide data to the software platform. It's all battery-powered and lasts days without recharging.

On a construction site, Primal Sensors' product would most likely be used to coordinate general contractors that manage the entire project and numerous subcontractors that come on to major sites for a few months to complete their phase of the work. The general contractor can take goods that come onto the site, tag them with a sensor and see where things are on a laptop screen. King explains:

What they're getting is the transparency to see anything that's on site. Where are the pallets, where are the tools. They'll know where things are and be able to prepare for what's happening next week and be ready to go without wasting time.

Primal Sensors is in discussions with several major construction companies, but it hasn't yet deployed for real-world testing. The business sells its service to companies on a subscription basis. It provides the hardware and software, and construction companies can move them from one site to another.

Primal Sensors is also exploring integration with other construction tech companies, such as PlanGrid and Procore.

Going forward, King hopes to explore the military market, which has huge needs for tracking equipment. He said:

Disaster relief, military use, drill weekends, Air National Guard... those are large operations that need some help when it comes to the tracking of its stuff, people and other assets.

Granny flats gain different reputation

The humble granny flat is no longer being built just as independent accommodation for elderly residents. In 2013, WA Government planning legislation allowed for granny flats up to 70sqm to be built in suburbs across Perth and to be leased for rental return, rather than limited to occupation by a relative of the owner.

Dominique Travers, managing director of Addstyle Constructions and West Coast Granny Flats, said while there had always been a steady demand for quality, customised detached or attached granny flats, home-owners now recognised the investment opportunities of ancillary accommodation. She told The West Australian:

Students, FIFO workers and young couples starting out are all ideal granny flat tenants, who are willing to pay $300-$400 a week for accommodation. Many property owners are providing tenant access via rear lanes or erecting fencing and installing separate utility meters to create an informal division for independent rental accommodation in their own backyard.

Travers said loan repayments on a custom-built granny flat costing about $110,000 were about $150 a week, with expected rental return of $250-$400 per week, for an ideal positively geared investment. She said:

In a city where the median house price has risen above $500,000, it's more difficult than ever to enter the property market and many homeowners are adding granny flats to their properties for their young adult children to occupy.

Our ageing population has also resulted in added demand for granny flat accommodation as the ideal 'lock and leave' home for retirees while they travel.

Travers said granny flats also made ideal home offices or studios, with one of her clients recently adding a granny flat for a family day care business.

Dale Alcock Home Improvement (DAHI) general manager Steve Grehan said an initial spike in demand for granny flats in response to the planning changes had led to ongoing steady numbers for the company.

Grehan said DAHI had built five to 10 ancillary accommodation projects a year before the R Code changes in 2013 but would build 30 double-brick customised granny flats this financial year.

We are still seeing a strong demand as a solution for extended families, and investors see granny flats as a great way to increase rental yields on existing investment properties.

Two-bedroom designs were most popular but DAHI also had a range of one and three-bedroom designs from 50-70sqm, with options for raised ceilings and alfresco areas. The company was also exploring different shapes to suit tight blocks and recently launched a two-bedroom, two-bathroom option.

Granny flats have had a revival in the last few years and they can serve a variety of purposes and offer a range of benefits. We expect they'll continue to be part of the housing mix, whether people are building them as independent living for grandparents or teenagers, using them as a home office, or creating a studio-style home for rent-paying tenants.

Summit Granny Flats, established in the wake of the legislative changes, has capped the number of its projects at 50 for 2015, to maintain quality in service and construction in response to overwhelming demand, according to general manager Chris Johnston. He said:

This change in laws has attracted a vast majority of people who would not have considered building a granny flat before. Granny flats aren't just for grannies any more — pretty much anyone at any stage of the home-buying cycle can benefit from this style of home.

The builder has options for lightweight framing with Masterwall, for speed of construction and thermal qualities, or standard double brick construction. Summit also offered the option of a "move-in ready" granny flat, with painting, floor coverings and window treatments included in the contract price. Johnston said:

Designs that optimise independent living are driving a new range of granny flats that incorporate fully enclosed single car garages and alfresco areas as standard. With multi-generational living continuing to grow in popularity, the boomerang generation leaving home and then returning, and the affordability of granny flats as an investment option, we foresee demand will significantly grow into the future.

Products added to Lightify portfolio

Osram Sylvania is expanding the Lightify portfolio. New products include the Lightify Switch and Outdoor Flex RGBW. The company is also unveiling the Lightify Plug, which makes nearly any electronic device smart and connected.

Lightify RGBW and tuneable white light bulbs are now available in a variety of forms. The RGBW lights are unique to the market because they can go down to a warm candlelight glow of 1900K at any brightness.

Lightify Plug

Featuring a sleek look, the plug enables users to group and control electronics via the Lightify app. For example, consumers can remotely activate window unit air conditioners shortly before arriving home to cool off the house without wasting energy having it on all day when people are not home. The plug can also turn off those items that may have been left on after leaving the house like a TV or radio.

Lightify Switch

Consumers now have the ability to dim their smart lighting regardless of what type of wiring they have in their home without needing mobile devices. Dimming via the Lightify app is always an option, but users can use the battery powered Lightify switches that are wire free and unobtrusive.

The Lightify Switch can program up to four or eight different lighting settings, depending on the version, and features intuitive handling. It has fast toggling between predefined settings via two or four buttons that react differently from a short tap versus a long press.

After a one-time set up via the Lightify app, settings become accessible without having to open the app or being connected to WiFi. Aaron Ganick, head of Smart Home Americas, Osram Sylvania said:

> *Just because our products are becoming smarter, does not mean that consumers will need to be glued to their smart devices 24/7. The introduction of battery powered switches that do not require the use of a smart phone for daily operation, and the plug that can automate consumer electronic devices based on schedules and scenes, allows consumers to take a step back from their smart home…*

Illuminate the outdoors

The Lightify Outdoor Flex RGBW is a 16-foot long flexible strip that can wrap around lamp posts, deck railings and under stairs. It offers colour changing, tuneable white and dimming capabilities.

Lightify RGBW products now include A19 for traditional lamps as well as BR30 and RT5/6 for recessed lighting. Dimmable products offer versatile customisation from different colours and a range of colour temperatures from candlelight (1900K) to daylight (6500K). They also provide a true green lighting experience that creates a higher quality coloured and white light.

Pro Pail for painting contractors

Bercom, manufacturer of the range of HANDy Paint Products, has introduced the HANDy Pro Pail.

Designed for both professional and do-it-yourself painters, the new HANDy Pro Pail was developed based on customer feedback. Bercom president, Jeff Given said:

> *The Pro Pail is a direct reflection of listening to our customers and implementing their feedback to create the best product possible…[it] will make the painting jobs of our customers easier.*

The HANDy Pro Pail is designed to accommodate up to a 6.5-inch mini-roller or three-inch paintbrush and will hold more than a litre of paint or stain.

To deter hand fatigue for painters tackling tough projects, the inclusion of a comfortable adjustable strap, as well as a mini-roller or paintbrush handle rest, was incorporated into the HANDy Pro Pail.

It also has a custom-fit liner available for purchase. Manufactured in the United States from 100% recycled materials, HANDy Pro Pail liners are solvent resistant to allow painting contractors to work with any paint or stain. They make colour changes easy while eliminating unnecessary clean up time. Tim McKay is a 23-year veteran paint contractor and a satisfied customer. He said:

> *I've been using HANDy Paint pails and trays for years. My crew loves them and they just tested the Pro Pail. The ability to use a larger mini-roller and brush at the same time has filled the void we have been dealing with for years…*

Bercom was recently named Sherwin-Williams 2015 Vendor of the Year and the HANDy Pro Pail and four-pack liners are set to launch in February 2016.

Nucleus partners with Lowe's

Nucleus will be the largest debut of a smart home product of its kind to be promoted within dedicated endcaps across 1,000 Lowe's stores. The product will also be for sale, including pre-orders, on Lowes.com.

The Nucleus device offers families home security, motion detection, instant video connectivity, privacy features as well as voice activation. In addition to pursuing integration with the Iris by Lowe's smart home platform, Nucleus supports integrations with other connected home platforms including Nest, SmartThings, iControl and Insteon.

According to the 2015 Smart Home Survey, conducted by Harris Poll on behalf of Iris, when it comes to shopping for smart home products, home improvement stores (either in-store or online) were rated the number one place Americans are most likely to buy.

Additional findings from the survey revealed that among Americans who plan to buy any smart home products in the next 12 months, security cameras are on the top of their list (56%). Parents with children under the age of 18 in their home are nearly three times as likely to purchase smart home products in the next year as those without. Mick Koster, vice president and general manager of Iris Home Systems explains:

> *We are committed to offering our customers smart home products that combine ease-of-use with breakthrough technical capabilities. Consumers are seeking connected home products that deliver security and automation in engaging ways [as Nucleus does].*

With Nucleus, families can forgo expensive and outdated intercom systems and easily connect to family members for an audio or video conversation in the home, between homes, or with any iOS or Android device via the Nucleus app. Morley Ivers, co-founder and president of Nucleus, said:

> *Nucleus was created by families to help other families instantly connect with loved ones, while keeping their homes protected. We are thrilled to announce our category exclusive retail partnership with Lowe's…and we are excited to offer Nucleus to simplify the connected home for customers.*

D-Link introduces Komfy smart home device

D-Link has released a smart home device under the new Komfy™ brand name. The Komfy Switch with Camera delivers a smart light switch for homeowners. Built to replace a standard 1 or 2-gang light switch, the Komfy Switch with Camera (DKZ-201S) allows users to not only keep an eye on their home with a high definition 1080p camera, but also monitor a range of environmental changes including temperature, humidity and air quality. It also comes in white and black colour options.

Most solutions require placing multiple devices throughout the home in order to view a room, control light switches and sense changes in the environment, but Komfy offers additional sensors and alerts so customers only need to access a single device.

The free Komfy app for iOS devices can be used remotely to control lights as well as create on and off schedules and send automatic push notifications to their mobile device.

The Komfy Switch with Camera offers a built-in HD 1080p camera with a 130-degree wide-angle lens. It incorporates an Ambarella HD camera System-On-Chip (SoC), to provide high quality video images, even in low light conditions. Along with sound and motion alerts, the camera can store unlimited video clips on an eight-day first-in, first-out basis to a personal cloud for free or record locally to a microSD card whenever motion is detected. Users can view and playback clips from anywhere directly from the Komfy app4.

More about the Komfy Switch with Camera:

- Komfy is not compatible with 3-way (multi-location control) switches, requires a neutral wire and only works with 1 or 2 gang light switch boxes.
- Only available with Apple devices using iOS 7.0 or above, at time of launch. Requires Bluetooth 4 / LE for initial setup.
- microSD card not included
- Komfy products and the Komfy app are not compatible with the mydlink, mydlink Lite or mydlink Home apps.

Commemorative door knob

Baldwin Hardware, a brand of the Hardware & Home Improvement division of Spectrum Brands Holdings, recently unveiled its 70th Anniversary Commemorative Knob. The knob design features an abstract design of seven engraved rings reminiscent of the age rings of a tree. Each ring represents a decade of Baldwin's history and encases a 70 in the centre of the knob.

http://goo.gl/zjonXB

LG's SmartThinQ Hub

LG's new SmartThinQ Hub looks very similar to Amazon's Echo, the speaker-turned-smart-home-assistant. But unlike the Echo, it has a 3.5-inch colour LCD display. The screen can show users the weather, time, and calendar, and its speakers can stream music via Bluetooth. Its true purpose is controlling "washing machines, refrigerators, ovens, robotic vacuum cleaners, air conditioners, and a variety of sensors".

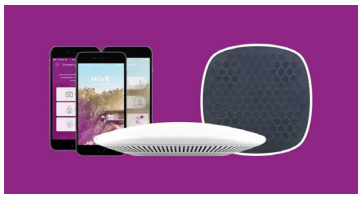
http://goo.gl/NDoXS2

OBI DIY stores sold

Rockspring Property Investment Managers LLP has acquired a portfolio of nine OBI retail stores in Germany for a total price of 150 million euros. The acquisition comprises over 112,000sqm of lettable area and includes OBI's 20,000sqm flagship store in Berlin-Zehlendorf as well as a second major store in Berlin, and outlets in Augsburg, Neuss, Siegen, Haiger, Schwelm, Vechta and Dresden.

http://goo.gl/lpNbno

Hive releases smart plug



When British Gas subsidiary Hive unveiled it's latest take on the smart thermostat, the company also committed to launching a new a range of motion sensors, light bulbs and a smart plug. It is finally ready to add its Active Plug and Window and Door Sensors to its connected home line-up, with all three products available to buy online.

http://goo.gl/eKoeOS