WESFARMERS/BUNNINGS FIRST HALF RESULTS • ACE HARDWARE GROWS AGAIN • LOWE’S ROBOTS IN ACTION • E-TAILER MILAN DIRECT DOES RENOS ONLINE • RENOVATION GROWTH SLOW BUT STEADY •
Hello HTH Group Show!

HNN would like to say a big “hi!” to everyone at the HTH Show on the Gold Coast this week. Wish we could be there with you — though we understand why we aren’t! We hope you all have a great time, and some good conversations about the future.
What, exactly, does it mean to be an “independent”?

2016 is shaping up to be a year when, more than at any time for the past 12 years, the hardware/home improvement retail industry is set to change. The changes will bring up new questions and new challenges. The entire nature of what it means to be an independent could be, today, on the verge of being significantly redefined.

There are two main triggers to this. The exit of Woolworths from home improvement means that the Home Timber and Hardware Group (HTHG) is set to be divested. Also, Metcash’s need for further funds to invest in its transformation plan (aimed at securing marketshare of IGA supermarkets) means it would willingly divest Mitre 10 if a good opportunity arose.

These looming changes bring up a number of issues. If these hardware retail brands do shift from corporate to private capital ownership (perhaps in a combined company, as some predict), how do they resolve the basic conflict of interest that arises between the needs of financial investors and the needs of the industry itself?

Financial investors want to receive the highest profit in the shortest possible time for the least possible risk. Yet what the independent part of the Australian home improvement retail industry needs is steady, sustained investment and development over the next four to five years. It needs marketing, branding, better-managed product development and supply-chain, education in merchandising, and close attention to pricing.

This tension between what investors want and retailers need has been highlighted by the recent implosion of retailer Dick Smith Holdings (DSH). Anchorage Capital Partners bought DSH from Woolworths in September 2012 for $20 million. The company was floated on the Australian Stock Exchange at a value of $520 million 15 months later. A year after the float, Anchorage had sold its holdings in the company, for the most part above its $2.20 float price. In February 2016 DSH went into liquidation.

It’s easy to see how something like this could happen to home improvement retail if HTHG and/or Mitre 10 ended up being acquired by financial investors. The problem is it wouldn’t just be individual private investors who were hurt in the end, as was the case with DSE. It would be independent store owners who would really suffer if such an enterprise collapsed.

Independent industry overview

Just what does the independent home improvement industry look like, and how is it doing currently?

According to the most recent figures from the Australian Bureau of Statistics (ABS), during FY 2014/15 in the non-employing (family, sole proprietor) hardware retail sector, 227 entered, and 350 left, leaving 1788 in business at the end of the financial year. For those employing between 1 and 20 employees, there were 230 entries and 221 exits during FY 2014/15, leaving a total of 3507 businesses. For those employing between 20 and 199 employees, there were nine exits and no entries, leaving 211.

Some consolidation did occur during FY 2014/15, in other words, and this took place in the small, non-employing sector of hardware retail.

Of the major buying groups in Australia, we know from numbers released by Metcash that Mitre 10 during
the first half of 2015/16 lost 19 Mitre 10 stores, and gained six, to give it a total of 314. The company also has 69 True Value stores, for a grand total of 383. The company claims around 400 additional stores depend on it for supply.

In rough numbers, HTHG has 275 Home-branded members, and 150 Thrifty-Link members, for a total of 425. Hardware and Building Traders (HBT) has around 585 members combined in hardware and industrial & tools. That means that these three groups have a total of around 1800 businesses affiliated with them.

Estimates vary widely as to how much of the independent home improvement market the affiliated retailers control, but an accepted conservative figure would suggest something more than 50%.

How did we get here?

The most outstanding feature of brand-affiliated independent home improvement retailers in Australia is their focus on trade sales rather than DIY retail sales.

To any outside observer, this seems a curious choice. Retail DIY is a large and growing sector of the market. Above all, the sector has a vast retail margin advantage over trade sales. Also trade sales fluctuate in response to housing activity and dwelling prices. Retail DIY sales are also affected, but not by nearly as much.

Added to this is that there is considerable international experience that not only can brand-affiliated independents survive in retail DIY, they will actually flourish. Cooperatives such as Ace Hardware in the US have proved the viability of the retail market.

The most common explanation offered for pursuing trade rather than retail sales is that Bunnings has become a dominant competitor in the retail DIY area. In the face of this, smaller retailers have had to retreat to trade sales in order to survive.

Independent retailers see themselves as “hardware experts”, able to provide super-service, which currently only tradies and “serious” DIYers really appreciate. Independents see retail DIY consumers as being unreasonably dazzled by the low prices offered by Bunnings.

In the case of HTHG, this trade focus is understandable. The Danks group on which HTHG is built had a long-standing focus on trade. Additionally, as part of the Woolworths/Lowe’s hardware operation, it needed to avoid standard retail DIY, as that was where Masters Home Improvement was expanding.

The case for Mitre 10 is quite different. Mitre 10 did make a big push into retail DIY sales, from 2002 through to 2007. The program was developed and implemented by Mitre 10’s then-CEO Frank Whitford. When he left in 2005 it was carried on by his replacement, Bernie Bicknell.

It did not work out. The borrowing needed to implement the plan led to the near-collapse of Mitre 10 by 2009, and its eventual acquisition by independent grocery wholesaler Metcash.

This is not something that Mitre 10 executives ever mention. Instead, when pushing for independents to join the brand, they tend to portray Bunnings as a ruthless — and even slightly unfair — competitor which cannot be resisted unless independents join together.

The situation

To come to terms with the shifts that will happen over the next two years, it is vital to work out what is going on at the present time. To do that, we need to look at two areas

• How did this happen? Bunnings took considerable time to develop and implement its successful business model. In the beginning, the consumer market wasn’t so much Bunnings’ to win, as it was Mitre 10’s to give away.
• What happens next? With the demise of Masters, and both HTHG and Mitre 10 possibly up for acquisition, how does the brand-affiliated independent home improvement retail industry move forward? What are the possibilities?
While these attitudes are understandable, they may not be the best basis on which to build future strategies in the changing world of home improvement retail today.

The Bunnings myths

The two main myths that persist about Bunnings and its market dominance are that its achievements are based on a kind of “big business bullying”, using large amounts of capital to takeover sections of the market, and that Wesfarmers somehow just got lucky with the retailer.

Neither of these are true, of course. It’s worth taking a quick look at the history of Bunnings under Wesfarmers to understand what really happened.

Wesfarmers bought 20% of Bunnings in 1987, then purchased an additional 24.6% stake in 1992, effectively assuming control over the business. This was followed up by the purchase of the bankrupt McEwans hardware retailer in 1993 for $48 million, which gave Bunnings a retail presence in every Australian state except Tasmania.

Newly appointed Wesfarmers managing director Mike Chaney wanted to transform the Bunnings business to be like the US-based big-box Home Depot. It was not a strategic move initially welcomed by the board of Wesfarmers. As the now managing director of Bunnings UK, Peter (PJ) Davis recalled while speaking of that time in a 2004 interview, Wesfarmers held a three-day retreat in Warburton in 1993, consisting of 38 executives, consultants and “ideas” people. While the ideas were new, the formula that would become the modern Bunnings was already well developed, as Mr Davis describes it:

We saw our main demographic as young, growing families, and came up with things like playgrounds for the kids and cafes that would serve cappuccino, a hire shop and a special-order counter where customers could get items that might not be in stock or in colours not stocked.

How long have the family had this business?
My grandfather Jack started a sawmill in 1948 and I commenced there in 1987. The timber yard was trading four years ago and we got into hardware in 2010.

You joined HBT in March 2010 – why?
After we got into selling hardware, two of the existing members who we knew well, strongly recommended that we give it a try.

How did it turn out for you?
We became aware of a whole new universe of alternative suppliers. The rebates we received easily paid for the membership and the buying was a huge improvement.

Why did you decide to adopt the H Hardware brand?
We had to improve our appearance to reflect the changes we’d made to the business and we needed to raise our community’s awareness that we were now a credible hardware outlet. As a result store traffic and sales improved immediately.

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We also decided community involvement was important, that we should allow community groups to use this great facility to raise funds. We thought we would let them set up lamington stalls. Then a local scout troop asked if they could have a sausage sizzle, and we have never looked back.

By 2001 Bunnings had grown to control around 6.5% of the Australian hardware market. It still trailed its main rival, the Mitre 10 group, which held around 12% of the market. In June of 2001, Wesfarmers made a bid for Howard Smith, which held a number of assets, including the hardware retail brands Hardwarehouse and BBC Hardware.

The original $2.2 billion bid eventually became $2.7 billion. With the purchase Bunnings became the largest single retailer in the Australian market, with a 13% share.

The next major move came when Wesfarmers announced in August 2004 that Mr Gillam had been appointed as the managing director of Bunnings, with the former managing director, Mr Davis, becoming the expanded division’s new chief operating officer.

In the five years that followed, Bunnings grew rapidly, in part through competitive moves such as the acquisition of five Mitre 10 stores in 2008. By 2009 it had completely outpaced all of its rivals.

As even this brief history shows, far from “getting lucky”, or simply dumping a lot of capital in its home improvement retail business, the early years of Bunnings at Wesfarmers were spent in a long, slow process of development — some 10 years — while the company worked out how to run a big-box home improvement retailer in the Australian environment.

It required a lot of investigation, a lot of experimentation and a lot of very hard work. It also required a willingness on the part of its parent, Wesfarmers, to take on considerable risk in investing in a business model that had worked overseas, but never before scaled up in Australia.

**Mitre 10's retail strategy**

The purchase of Howard Smith by Wesfarmers in 2001 acted as trigger on Mitre 10. The company underwent a rapid rebranding, and by 2004 it had launched an entire new expansion program, with a clear focus on growing its retail DIY business.

The response began with rebranding, and then extended to the launch of a set of carefully differentiated stores, described in an AdNews article from 2004:

After conducting research into consumer shopping habits, Mitre 10 is converting its stores into four specific formats: Mitre 10 handy stores, for everyday hardware needs; solution stores, de-
signed to appeal to women and home decorators; home & trade, for builders and tradesmen, and the MEGA stores, for everyone.

http://goo.gl/M7sU5t

The MEGA stores, in particular, were designed to compete directly with the warehouse stores of Bunnings. From the same AdNews article:

Mitre 10 expects 60% of MEGA shoppers to be women, so the stores are brightly coloured and easy to navigate, and include kitchen and bathroom displays, CAD (Computer Aided Drafting) systems to help with interior design, as well as consultants and installation services.

In an interview with AAP, Mr Whitford expanded on the basic idea:

What we do know is more than 40% of females in a recent survey have used a power tool or bought a power tool in the past 12 months out of more than 1000 people surveyed... It showed that women are more and more doing DIY (do it yourself) activities and we think that’s growing, we think that’s going to grow enormously. The second thing is women very often are the decision-makers in house renovations in nearly 90% of the cases... if we want to get to the decision maker, we think we need to get to the female.

The financial goals for the MEGA stores were quite high. As an article in Fairfax Media explained in May 2002:

Mitre 10 chief executive Frank Whitford said he planned to have 30 warehouse-style hardware stores operating within five years, a move he said would “generate over $500 million in turnover”.

http://goo.gl/DVH7p1

To build out the stores, Mitre 10 had to seek financing. It went to Investec Wentworth Private Equity, which invested $20 million, with $5 million used to establish the Mitre 10 Mega Property Trust, which would own some of the properties, with plans to list this independently in the future.

The new strategy did not work. By 2009 Mitre 10 had crashed to a 5.9% market share, while Bunnings had grown to an 18% share. Mitre 10 was in serious financial trouble. Its recorded profit for 2007/08 was just $1.3 million, and in 2008/09 it reported a loss of $11.7 million, dragged down by the need to close and write-off its underperforming, corporate-owned stores.

Hardy’s Mitre 10 MEGA in Packenham ceased operations in August 2015

Womersley’s Mitre 10 in Chelsea Heights ceased trading as a MEGA store in 2011.

Like many retailers today, Womersley’s Mitre 10 faces challenges as it plans to reinvigorate its retail space.

hnn.bz
An ABC reporter described the overall situation Mitre 10 faced in December 2009 like this:

Mitre 10 is in a mess. Sales are falling, profits are evaporating and underperforming stores are being closed. Only the Commonwealth Bank’s generosity in not calling in a $55 million loan appears to be keeping the company solvent.

http://goo.gl/10pUlc

By the end of December 2009, Metcash had made an offer of $55 million for 50.1% of Mitre 10, with an option to purchase the remaining 49.9% in two years time. Mitre 10 accepted that deal over an alternative offered by private equity firm Anchorage Capital Partners.

MEGA reminders

Of the 30 MEGA stores planned for Victoria, only five ever became operational. Four of the five have ceased trading, with the final holdout, the Hardy MEGA in Packenham, closing its doors on 11 August 2015. The site is now occupied by a Bunnings Trade store operation.

The fifth, former MEGA store, Womersley’s Mitre 10 along Springvale Road in Chelsea Heights (VIC) continues to trade, but let go of its MEGA branding in 2011.

When HNN visited the store recently, we found it to be in a state of quite advanced disrepair, though posters at the entrance promised this would be temporary, with a refurbishment soon to come. Considerable portions of the store had, in fact, empty shelves wrapped with black-and-yellow “keep off” tape, and areas such as its bathroom display were filled with cardboard boxes. The only two places of order seemed to be the neat display of Makita cordless tools, and the STIHL display area. (With all sincerity, HNN does really wish the store and its owners the very best luck with their eventual refurbishment.)

**Competition or strategy?**

In the standard narrative, the reason for the decline of Womersley’s Mitre 10 can be found just a six or seven minute drive down Springvale Road. Not only is there a large format Bunnings warehouse, but straight across the road there is a Masters store as well.

But does the “standard narrative” really hold up? Bunnings may be a very good competitor, but what is just as evident is that those who have sought to tackle the company head-on have done so without understanding just how difficult addressing the changing retail DIY market is in Australia.

In the end, the mistake Mitre 10 made, and then Woolworths repeated just a few years later (with more capital) was not underestimating Bunnings, but overestimating their own capabilities.

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**Bunnings never stops**

If you visit quite a few Bunnings stores (as HNN does), you soon realise that Bunnings is constantly experimenting. It’s hard to know when a feature is “new”, but you do see a wide range of different approaches being tested.

This Kaboodle kitchen display has been built into Bunnings’ store in Mentone — which is among their best stores. An entire aisle is devoted to fully-built Kaboodle kitchen cabinets, so that it is easy for customers to get a good look at the cabinets, examine their construction, and possibly even pick up a few tips on how it should be done.

How well this works on the sales/consumer level, HNN of course can’t say. It seems like a superb idea, however, as it takes customers beyond buying a something in a flatpack cardboard box that they have seen fully assembled, but have no idea as to how it works structurally.
As mentioned above, Mitre 10’s missteps in trying to enter the retail DIY market led the company to accept a buyout offer from Metcash at the end of December 2009. The offer was for $55 million (which repaid its outstanding loan) to buy 50.1% of Mitre 10, with an option to purchase the remaining 49.9% in two years time.

The Anchorage alternative

The Metcash offer was accepted over an offer from Anchorage Capital Partners, which was seeking a 40% to 49% stake in Mitre 10, rather than control. Its plan for the future of the retail group was substantially different from that of Metcash. It would aim, the company said at the time, to make Mitre 10 stores the equivalent of “hardware convenience stores”, with an emphasis on development in more urban areas. Anchorage also wanted to make Mitre 10’s product offering more “coherent”, and to develop some categories which had not been used to their full potential, especially kitchens and plumbing.

Anchorage’s aim, as stated in December 2009, would have been to develop Mitre 10 over the next two to three years, and then consider either a trade show or an initial public offering on the Australian Stock Exchange (ASX).

Metcash ownership

Then managing director of Metcash, Andrew Reitzer, characterised the choice that faced Mitre 10 as being between a long-term wholesale partner in Metcash, and a short-term financial partner in Anchorage. In an interview with AAP, Mr Reitzer pointed out that Metcash had persisted with its IGA grocery business for 11 years to bring it to a 20% share of its market, and he promised a similar commitment to the hardware business.

Metcash completed the initial acquisition in March 2010, then went on to acquire the rest of Mitre 10 in July 2012, paying $46.5 million.

Shortly after the full acquisition of Mitre 10, Metcash began to suffer deterioration in its earnings from the company’s core grocery supply business. Mr Reitzer exited the company in June 2013, and was replaced by Ian Morrice in the managing director role.

In March 2014, Metcash announced it was entering into a one-year transformation plan, which would require it to, among other things reduce its dividend payments. In December 2014, the company released poor half-year results, and announced a dividend cut of more than 30%. It also suggested that its one-year transformation plan would take 18 months to complete.

The full-year results released in June 2015 continued to be poor. An announcement that the company would suspend further dividend payments helped to send its share price to new lows.

Metcash did manage to sell off its automotive businesses to Burson Automotive for $275 million in June 2015. This enabled it to pay off debt, and boost its reported profit for the year.

Half-year results released in December 2015 showed a continued decline in underlying EBIT for Metcash. However, the share price recovered from lows of around $1 to trade in a range around $1.70.

Metcash/Mitre 10 outlook

As Metcash enters the third year of its one-year transformation plan, its prospects seem brighter than they were a year ago, but the company remains in peril. There is really no end date on how long its current “transformation” will take. Metcash has gambled on its ability to lift the performance of its retail network close to that of the two major supermarket chains, Woolworths and Wesfarmers’ Coles.

The difficulty is that, as those two chains go head-to-head, the competitive pressure continues to build. Added to this is the expansion of discount chain Aldi to areas such as South Australia, where Metcash’s IGA chain is thought to be vulnerable.

In light of this, there has been persistent speculation that Metcash will seek to spin off Mitre 10. As with its divestment of its automotive businesses, such a move has two benefits. It provides additional capital with which to reduce the company’s debt burden, and it also reduces the company’s assets, thus lessening the chance that, should its share price plummet below $0.90, a hostile takeover would take place.
As for Mitre 10 itself, its loss of 19 stores in its network, offset by the gain of six more, is likely a consequence of a lack of investment by its parent over the past two years. For example, during much of FY 2014/15 there seemed to be a dire lack of marketing budget for the brand.

The company has suggested that its “Sapphire” store program might offer some hope that the performance of the overall network could be improved. As HNN has commented in the past, the Sapphire stores are really quite good efforts, but there is nothing particularly spectacular about them.

Slightly ironically, if they are modelled on anything, it would seem to be the kind of “hardware convenience store” that Anchorage had suggested when it made its takeover offer in 2009. In fact, Mitre 10’s store of the year, the lovely Sunlite Mitre 10 store in Paddington (NSW), could serve as a model for that exact concept.

**HTH Group**

After the dramatic upheavals of the Mitre 10 story, the HTHG narrative seems somewhat calmer — this despite the big drama of Masters Home Improvement playing out. Under the considered guidance of its general manager, James Aylen, HTH Group has managed to steadily improve its fortune, carrying on the tradition of profitable business established when it was formerly the independent Danks hardware retail group.

Unfortunately, somewhat like Mitre 10, there are indications that HTHG also was denied the kind of funding it likely deserved, as Woolworths’ loss-making Masters venture made further investment in hardware difficult. HTHG did manage, nonetheless, to launch one of the better TV advertising campaigns in the industry, and it is a pity they did not have the funding to continue with this. Even so, HTHG did manage to creatively extend that campaign onto the internet, producing a truly humorous Christmas campaign.

**The future**

With HTHG definitely for sale on the market as Woolworths and Lowe’s exit the hardware business in Australia, and a sale of Mitre 10 seen as a positive by its owner Metcash, it’s not such a surprise that the financial markets would suggest combining the two in some way.

It’s not a surprising suggestion, but what has been surprising is the poor level of analysis offered regarding the proposition by media, financial analysts and even some hardware retail stalwarts. There has been the suggestion, for example, that by combining the two operations, and coming up with revenue of close to $2 billion, such a newly formed company could “take it” to Bunnings and pose a real threat.

Not only is Bunnings likely to post revenue for the current financial year of $10.4 billion, it is also worth taking a look at the EBIT ratios as well. EBIT ratio is the EBIT divided by the total revenue, and it provides a measure of the earnings efficiency of a business. Mitre 10’s EBIT ratio goal — only its goal — is 3%, and it’s likely HTHG has a similar target — which neither retailer has yet reached.
Bunnings has a steady EBIT ratio of over 11%. In part that is reflective of the fact that Bunnings and the two independent brands are really in slightly different businesses. Bunnings is a pure retailer, while Mitre 10 and HTHG are wholesale suppliers to hardware retailers. It is also reflective, however, of the different markets they pursue. Bunnings is largely all about the high-margin retail DIY market, while Mitre 10 and HTHG are predominately in lower margin trade businesses.

You can add to that the fact that, as mentioned above, Bunnings is about to expand its total sales by an additional $2 billion, through its purchase of the UK-based home improvement retailer Homebase. Where $12.5 billion plays $2 billion, it is easy to see who has the advantage.

In fact, should the combination of Mitre 10 and HTHG ever actually take place, it is quite likely that Bunnings will simply see this as an opportunity to take additional market share away from them, without triggering any anti-competitive tripwires. It’s worth remembering that Bunnings in Australia now has a new managing director, Michael Schneider. Mr Schneider will be keen to continue the kind of growth that Mr Gillam has made a regular feature of Bunnings’ results.

As with the unfortunate events around Dick Smith Electronics, the only real beneficiaries of such a merger and listing would likely be the private capital companies that help set it up, and some initial investors who sell out before an almost inevitable collapse comes about.

Though, of course, there might be one other beneficiary as well. A private equity controlled HTHG/Mitre 10 would need an operating supply-chain. Metcash could find itself replacing Mitre 10 with a $2 billion supply contract, providing it with steady revenue at the cost of almost no risk.

**The way forward**

What is really needed is not quick fixes or superficial strategies. The first decision that Mitre 10 and HTHG — or their prospective future owners — really need to make is whether the retailers can actually survive for long by primarily focusing on trade sales. If so, then there is a great deal of work that needs to be done in improving the efficiency of that business.

If instead they decide it is worth expanding into the largest and most profitable sector of the business, retail DIY, then they need to develop a strategy that will enable them to work out the best way to grow that portion of their business. At the moment, DIY is treated as a kind of extension of trade business. As the Bunnings experience shows, while this might have been true 20 years ago, it is no longer the case.

If we were to say what the difference is, how this market has evolved, we might point to the phrase “hardware retail”. Not so long ago, it was the “hardware” part that was overwhelmingly important — the need for specialised knowledge. Today, the second word, “retail”, has equal importance. “Retail” in the sense of actively discovering and meeting the needs of the customer.

This could mean that the best partner for Mitre 10 or HTHG (or both together) would be not a whole-sale operation or private equity, but a solid retail-based company looking for an expansion opportunity. Certainly, in terms of putting these operations on the market, there would be a larger range of partners to choose from in that category.

It could lead “independents” towards developing a whole new identity that better matches the current marketplace, and helps to better secure their futures.
Wesfarmers announced its results for the first half of FY 2015/16 on 25 February 2016. The company reported that its operating revenue was $33.5 billion, up by 4.7% on the previous corresponding period (pcp), which is the first half of FY 2014/15.

Overall earnings before interest and taxation (EBIT) also rose on the pcp by 1.6%, coming in at a total of $2.11 billion. Net profit after taxation (NPAT) was declared at $1.393 billion, an increase of 1.2% on the pcp.

The results seemed to disappoint the market, with the Wesfarmers share price falling by over 10% during the week of the announcement.

Wesfarmers’ home improvement retail division Bunnings posted results that were considerably better than those of the overall group. Revenue for the division was $5,500 million for the half, a 10.9% increase on the pcp.

EBIT was $701 million, up by 13.4% on the pcp. Overall EBIT was boosted by some gains in property trading, which amounted to $33 million, as contrasted to $14 million during the pcp. Pure trading EBIT, excluding the property gains, came in at $668 million, up 10.6% on the pcp.

Bunnings also experienced good store-on-store growth, which grew by 7.9%, as compared to the pcp. This was down slightly on the figure for the previous half, with was 9.1%. Return on capital (RoC) was high, coming in at 35.8%, as contrasted to 31.6% during the pcp.

Bunnings reports adding seven warehouse stores and closing three during the reported half, making a total of 240 now operational. Four more warehouse stores were expanded, and there are currently 13 under construction.

Bunnings also added a net of two smaller stores for a total of 67, and closed one Bunnings Trade Centre, bringing the number to 32. One warehouse store was opened in both New South Wales and Victoria, and two in South Australia.

**Fallout from Masters exit**

In response to an analyst’s question, Bunnings Group CEO John Gillam indicated that he had ongoing concerns for the side effects produced by the exit of the Woolworths-owned Masters Home Improvement. Mr Gillam said:

If [Masters] closes and if they have an aggressive liquidation approach then there’s going to be some short term volatility in margins. Small businesses are especially at risk in that sort of environment. It’s really too early to predict the impact or how it will play out because there’s no clarity yet around the quantum or the disposal approach. So we’re monitoring this very, very closely.

Mr Gillam also indicated that Bunnings had an ongoing interest in around 15 properties Woolworths might be liquidating, both in expansion areas and as replacements for existing locations.
The retailer-owned hardware cooperative has reported total fiscal 2015 revenues of USD5 billion, an increase of USD344.5 million or 7.3% from the previous year.

Fiscal 2015 consisted of 52 weeks compared to 53 weeks in fiscal 2014. The 53rd week in fiscal 2014 added approximately USD49.4 million in revenues in 2014. Excluding the 53rd week in fiscal 2014, revenues increased USD393.9 million or 8.5%.

Net income was USD156.2 million for fiscal 2015, an increase of USD14.9 million or 10.5% from fiscal 2014. John Venhuizen, president and CEO said of the results:

My sincere gratitude to the team for delivering shareholders an impressive pre-tax return on equity of 33%.

The approximately 3,000 Ace retailers who share daily retail sales data enjoyed a strong fiscal 2015, with increased customer count and average transaction size driving a 4.6% same-store-sales increase. This excludes the impact of the 53rd week in 2014.

Revenue increases were noted across all departments with outdoor living, electrical and lawn and garden showing the largest gains.

Ace added 158 new domestic stores in fiscal 2015 and cancelled 98 stores. This brought the company’s total domestic store count to 4,311 at the end of fiscal 2015, an increase of 60 stores from the end of fiscal 2014.

Retail revenues from Ace Retail Holdings (ARH) — essentially the corporate-owned Westlake Ace chain — were USD251.7 million during fiscal 2015, an increase of USD17.9 million or 7.7%. Average ticket price increased 3.3% and customer count increased 1.3% compared to fiscal 2014. The largest increases in these stores were in lawn and garden, consumables and electrical.

Annual wholesale

Wholesale merchandise revenues from new domestic stores were USD104.7 million in fiscal 2015. This increase was partially offset by a decrease of USD43.8 million due to domestic store cancellations.

Wholesale merchandise revenues to comparable domestic stores increased USD172.8 million in fiscal 2015 compared to fiscal 2014.

The new store, cancelled store and comparable store amounts all exclude the impact of non-recurring Paint Studio equipment revenues of USD46.8 million in fiscal 2014 and the impact of the 53rd week of USD49.4 million.

Wholesale revenues from the company’s Ace Wholesale Holdings (AWH) subsidiary contributed USD196 million to the overall increase from both new and comparable domestic stores.

Fourth quarter results

The fourth quarter of fiscal 2015 consisted of 13 weeks while the fourth quarter of 2014 contained 14 weeks. Total revenues for the fourth quarter of 2015, ended January 2, 2016 were USD1.2 billion, an increase of USD2.4 million or 0.2%, from the fourth quarter of 2014.

Excluding the extra week in the prior year quarter, fiscal 2015 fourth quarter revenues grew USD51.8 million, or 4.7%.

Net income was USD12.1 million for the fourth quarter of 2015 compared to USD12.7 million in the fourth quarter of 2014.

Same-store-sales at the 3,000 Ace retailers who share data were up 3% for the fourth quarter of fiscal 2015. This result excludes the impact of the 53rd week in 2014.

Retail revenues from ARH were USD59.8 million in the fourth quarter of 2015. This is an increase of USD4.5 million, or 8.1%, from the fourth quarter of 2014. Same-store-sales were up 3.8% versus the prior year with lawn and garden, consumables and paint showing the largest increases.

Total wholesale revenues were USD1.1 billion, a decrease of USD2.1 million, or 0.2%, as compared to the prior year fourth quarter. The decrease is the result of one less week in the fourth quarter of fiscal 2015 compared to fiscal 2014.

Quarterly wholesale

Wholesale merchandise revenues to comparable stores decreased USD3.7 million in the fourth quarter of 2015.

Wholesale merchandise revenues to new domestic stores activated in the 2014 and 2015 fiscal year periods contributed USD21.6 million in incremental revenues during the quarter, while wholesale merchandise revenues decreased USD9.7 million due to stores that cancelled their membership in 2014 and 2015.

New store, cancelled store and comparable store amounts all exclude the impact of non-recurring Paint Studio equipment revenues of USD1.5 million in fiscal

Ace Hardware delivers, again

Named as a top 2016 franchise

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2014 and the impact of the 53rd week of USD49.4 million.

The company’s AWH subsidiary contributed USD47.5 million of incremental revenue.

Expenses

Retail operating expenses of USD95.7 million increased USD4.2 million, or 4.6%, in fiscal 2015 as compared to fiscal 2014, primarily as a result of higher expenses associated with ARH’s acquisition of five retail stores during the second quarter of 2015 and the opening of a new retail store in the third quarter of 2015.

Wholesale operating expenses increased USD24.4 million, or 6%, for fiscal 2015 as compared to fiscal 2014. The increase was primarily driven by additional operating expenses resulting from the AWH acquisition of distribution business Jensen-Byrd in December 2014, increased warehouse costs associated with the higher sales volume and advertising expenses.

This was partially offset by the settlement of a gain contingency relating to ARH vacating its leased warehouse facility and some of the employees who were employed there.

Highly ranked franchise

Ace Hardware has been ranked number one in its category on Entrepreneur magazine’s latest Franchise 500 list. It ranked No. 14 overall out of more than 462,500 individual businesses that were evaluated for the highly regarded list. Dan Miller, vice president of retail operations and new business at Ace said:

Ace Hardware offers entrepreneurs the strength of a brand that is globally trusted and locally embraced, accompanied by a business model that allows you to tailor your product mix to your local market…With no royalty or franchise fees, plus a new store incentive, and a best-in-class support system…new Ace Hardware retailers are set up for success from the very beginning.

From the onset, Ace Hardware store owners are offered retail market surveys and analytics, support for site acquisition, lease negotiation, and interior and exterior store design. The retail co-op also has resources to assist with training, day-to-day store operations and advertising. Ace offers its retailers a marketing plan that includes four different levels of advertising support, including national, regional, local and one-to-one.

Mark Driscoll recently became part of the Ace Hardware cooperative when he opened Sugar Grove Ace Hardware in Sugar Grove, Illinois. He said:

After 36 years running retail grocery chains, I really wanted to break off and start my own business. I have always loved and wanted to stay in retail — but I wanted to find a business opportunity where margins were still lucrative, and service still played a major factor. After six months of looking at many opportunities, Ace looked to me like the perfect fit.

Published annually, the Franchise 500 rankings are determined using an exclusive formula that takes into account objective and quantifiable factors including financial strength, stability, growth rate and size of the system. All franchises are given a cumulative score, and the 500 franchises with the highest cumulative scores become the Franchise 500 in ranking order.
Fast Company magazine recently sent one of its writers, Jessica Hullinger to experience the Lowe’s robot in a realistic store situation. The Lowe’s-owned Orchard Supply Hardware store in San Jose, California set the scene for this encounter.

The 5-foot-tall autonomous robot is called OSHbot and just celebrated his one-year anniversary at the store. His job is twofold: to help customers find items they need, and help store managers with inventory tracking.

When Hullinger approached OSHbot, his facial-recognition technology identified her as a human customer and he cordially introduced himself. He said in a robot-like monotone voice:

*Hi, I’m OSHbot. I can help you find things in the store. What are you looking for?*

For the sake of research, Hullinger replied, “LED lights.”

On a screen, a list of LED bulbs appeared. She scanned and picked one at random. A map of the store appeared on the screen, with a green dot indicating their current location, and a red dot suggesting the lightbulb Hullinger chosen was across the store. The robot asked:

*Would you like me to take you to the LED?*

After pressing “yes”, the robot said, “Sure, follow me”, before rolling away with Hullinger in tow.

The robot uses the same navigational technology found in driverless cars to look for obstacles. It swerved around product displays and customers on its quest to find the item. After about a minute, the robot came to an abrupt stop in front of a wall of LED lights and declared: “We are here”.

Kyle Nel is the executive director of Lowe’s Innovation Labs and the brains behind OSHbot. He has a background in applied neuroscience and has been tasked with transforming the world’s second-largest hardware chain from the traditional place dads go to buy power tools, to a hotbed for retail innovation that brings science fiction to life. He told Fast Company:

*People ask me, ‘Why do you work for Lowe’s?’ One of my metrics of success is how often people go, ‘Robots at Lowe’s? What?’ We’re really good at retail and understanding home improvement, which means we understand how people live in their homes. Why can’t we also continue to iterate and innovate in uncharted ways?*

At Lowe’s, Nel basically gets to experiment and play however he wants. For example, a few years ago, he invited a group of science fiction writers to create stories about the future of retail based on Lowe’s research and trend data. OSHbot was one idea they came up with.

Nel is a self-proclaimed comic nerd and had the stories turned into comic books, which he gave to his team members along with a mission: Get this built. Within eight months, OSHbot was on the floor of the Orchard Supply store. He said:

*On the outside, the whole thing might seem like a gimmick. But we didn’t build robots for the sake of building robots.*

The robot actually does things human employees can’t. For example, it is multilingual. So far, OSHbot is fluent in English, Spanish, and five different Asian languages. Nel explains:

*Our research showed language was a huge pain point for customers. Knowing you can walk up to a robot and communicate with it and you know it’s going to speak Japanese or Mandarin is a big deal.*
The robot also tracks inventory in real time and can tell employees when an item is out of stock, misplaced, or has possibly been stolen. Nel said:

*The real-time inventory thing in retail is like the holy grail. Right now, inventory tracking at all retailers is a very tedious and very time consuming and inaccurate process, so we’re trying to attack that.*

Soon, OSHbot will be able to scan items customers bring in and tell them what it is and whether the store stocks it. The robot can also spot previously unnoticed trends that could shed light on new revenue opportunities. Nel said:

*People always come in asking for mailboxes. Who would have thought? So, are we missing an opportunity to do more with mailboxes?*

Nel is also overseeing other innovations such as using eye-tracking gear to see how people navigate a Lowe’s store and then identify confusing areas. In one test, they wanted to see if people could find the holoroom – a 3D room – in the store, but realised quickly that shoppers were confused by a set of recently installed ads that were obscuring the aisle signs. Nel said:

*We were like, we gotta take those signs down. It’s very simple things that have big ramifications and make the overarching experience intuitive and better.*

According to Hullinger, customers seem to like OSHbot. Sometimes they stoped to take pictures of him. One frequent shopper named Don Kahrs professed his love for OSHbot after using it to find carpenter glue.

Nel said the review ratings have been very positive, and not just among the tech savvy. The data shows non-millennial adults love the robot. He said:

*So it isn’t just a tech thing, or that the robot is cool, but this solves a problem, it helps me find a thing.*

Employees are so used to OSHbot’s presence that they basically ignore him. The idea is to roll the robot out in actual Lowe’s stores soon, though Nel did not give an exact date. He said:

*All these projects might seem disparate, but they’re all so interconnected. The holoroom helped us develop a proprietary way to create 3-D assets, which allowed us to do things with robots. It’s all tied together. We really are focused on trying to make a real omnichannel where you can just get whatever you want, whenever you want.*
Masters sites reviewed by Bunnings

At Wesfarmers’ recent presentation for its half-year financial results, John Gillam, CEO for Bunnings Group, said he would be watching carefully what happens to Masters and its sites. He said: “In rough terms, there are over 100 properties all up, 63 developed into stores and there are 15 or so that we are interested in.”

Mr Gillam also predicted there will be strong competition for Masters sites: “We don’t think for a second that we are the only ones looking at the opportunities here.”

Wesfarmers managing director Richard Goyder told the media that Bunnings is interested in Masters sites if it can acquire them at the right price, and if not, the retail giant will let someone else take over the 15 or so sites they are considering.

Brian Walker, chief executive of the Retail Doctor Group, told SmartCompany the potential acquisition of Masters sites by Bunnings would likely be challenging for independent retailers. He said: “However, the challenge for smaller hardware businesses as businesses like Bunnings mop up additional Masters sites, which is inevitable, is...to differentiate and be viable in areas like range and price — hence the rise of banner groups and competitor networks.”

Mr Walker also believes Bunnings won’t be the only big box retailer looking to potentially pick up Masters sites. He said: “It wouldn’t surprise me to see super retailers the Gerry Harveys, the A-Marts of this world having a bit of a look. Kmart and Target have openly discussed expanding Kmart so there aren’t too many times in the market that these fitted-up big box retail sites become available.”

Potential fire sale alert

Bunnings Group CEO John Gillam has warned a potential liquidation of tools, hardware and goods held by failed home improvement rival Masters could impact negatively on margins for the entire sector.

Masters’ uncertain future could lead to an avalanche of hardware stock being dumped on the market at heavily discounted prices. This could send shockwaves through the hardware and home improvement industry by ruining sales and profits for both large and small retailers.

An “aggressive liquidation” could impact hardware sector earnings in the second half, according to Gillam. He said: “The issue around the inventory that Masters holds, and if it closes, and if that inventory is liquidated, that’s an industry wide issue, for all parts including home improvement, outdoor living and the whitegoods sectors.

There is a fair bit that is unknown, so the first thing is if it does close but if it closes, and if they have an aggressive liquidation approach then there is going to be some short term volatility in margins and small businesses are especially at risk, in that sort of environment.

Five more Bunnings NZ stores

Bunnings will tap into the demand for housing construction and renovation in New Zealand — especially in Auckland — by opening another five stores.

Bunnings NZ general manager Jacqui Coombes said the New Zealand unit has quadrupled turnover to NZD898 million for the 2015 financial year since setting up in the country in 2002.

Bunnings has 50 stores in New Zealand including 25 warehouse stores, 19 smaller format ones, and six trade centres which supply heavier construction materials.

Bunnings Group CEO John Gillam
Coombes said the company didn’t have a target number of stores to hit in New Zealand but still sees plenty of opportunity for growth despite strong competition from main rivals, Mitre 10 and Fletcher Building-owned Placemakers.

Bunnings is relocating a Taupo store to a bigger site and opening new stores in Petone and Naenae in Wellington by the end of the second half in July. The big box retailer is also opening stores in Grey Lynn and Westgate in Auckland in the first half of the 2017 financial year, and one store in south Hamilton by early next year.

First NZ Capital analysts said as well as good management, the Bunnings chain was benefiting from a significant housing tailwind, providing a buffer to the impact of rising cost of goods.

http://goo.gl/V6cCKb

Takeover of Metcash?

Sources told DataRoom (a column in The Australian) that a consortium backed by a Chinese retailer is believed to have been planning a takeover of Metcash last year, when the target’s share price was about AUD1.

According to the column, the un-named party was interested in Metcash because of its distribution channels as a wholesaler.

The news comes as the company competes against the success of German chain Aldi that is impacting heavyweights Woolworths and Coles as well as Metcash and its independent IGA stores.

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One of Australia’s largest online furniture retailers, Milan Direct, is going after the DIY renovations market. It has revealed a new retail website, MD Finishings that will serve both DIYers and commercial renovations. The website will offer complete fit-outs for offices, hotels or restaurants.

The site has close to 2,000 products for the bathroom, kitchen, laundry, walls and doors, lighting, outdoor and general DIY. MD Finishings enables Milan Direct to use its brand and manufacturer network to expand its capacity into the renovations market. Milan Direct co-founder, Dean Ramler told Power Retail:

I saw that there was a lack of affordable, high-quality finishings available online, and reached out to some of the brands we have a great relationships with to bring them together under one banner online at the best price for our customers.

The Housing Industry Association has valued the residential renovations market alone at around $29 billion in 2015. At the moment, many homeowners seem to be choosing to renovate rather than try their luck in Australia’s highly priced housing market.

IBISWorld industry research indicates that the online market for hardware items has also been performing well, growing by more than 12% over the past five years.

The struggles at Masters could have presented an opportunity for Milan Direct to capitalise on a gap in the online building supplies and finishings market. However Ramler sees the situation slightly differently. He said:

Our decision to enter the finishings and home renovation market was independent of the issues Masters had. Rather, the move into home finishings was a natural progression for Milan Direct, we’ve seen great success selling furniture online and the home renovation market fits so well into our business model.

Ramler explained that it is not the company’s intention to compete with big-box hardware stores like Bunnings.

Even though Milan Direct has been competing head on with Bunnings for 10 years now with our strong outdoor furniture range, it is not our intention to compete directly with Bunnings in finishings, as our models are completely different. Bunnings and Masters are huge cost-base businesses that require massive showrooms Australia wide, with high stock holdings.

In contrast, MD Finishings being a pure-play online retailer, has unlimited floor space, and we have the ability to list thousands of products and offer a much broader range, without taking any stock risk. We believe this low-cost market place model is the key to our success.

MD Finishings made a “soft” launch in late 2015, explains Ramler. During this time, it experienced revenue increases of 40%, with conversion rates also up 70 to 80%. He said:

After the strong initial response, we’re already planning to expand our offering and are adding another 1,000 products to the site.

MD Finishings is the first initiative from Milan Direct since Temple & Webster acquired the company late last year.
Temple & Webster results disappoint

Shares in Temple & Webster have more than halved after the online homewares retailer slashed its full year earnings forecast. Investors dumped shares in the retailer, wiping about $45 million off its market value in the process, as it warned it would miss its revenue and earnings forecasts.

The warning came as the retailer reported its first set of interim financial results since listing on the share market last December. While shoppers had been spending more money on its website, the company’s advertising and marketing campaigns had failed to attract lots of new customers.

The company warned its full year revenues could come in up to 10% below the $76.2 million forecast in its prospectus. Its $8.5 million underlying loss forecast could also blow out by up to $5.5 million.

Shares in the company nosedived to 20.5 cents, down 42.5 cents from its previous close of 63 cents. The stock is now just a fraction of the $1.10 investors paid during the retailer’s IPO.

Managing director Brian Shanahan said marketing had not performed as expected, leading to fewer customers. He said:

The initial campaign and sales outcome has taught us a lot. We will be fine tuning our marketing spend, customer acquisition channels and product mix during the second half to improve new customer and sales performance.

Shanahan said revenue per active customer had actually risen to record levels, and Temple & Webster is now focused on building better customer retention. He said:

We remain the largest player in a high growth segment and are well capitalised with circa $27 million in cash and no debt.

The company is confident it will break even in the 2018 calendar year, according to Shanahan.

Temple & Webster’s first half net loss widened to $17.7 million from $3 million. Costs associated with the company’s sharemarket listing and the acquisition of furniture e-tailers Milan Direct and Zizo weighed on the result.

Pro-forma underlying losses were $7.5 million, compared to $7.8 million a year earlier.

Temple & Webster gets hammered

- Net loss increases to $17.7 million from $3 million
- Sales revenue up 47.2% to $21.3 million
- No interim dividend declared
The Housing Industry Association (HIA) says renovations activity is slowly getting its momentum back after declining to a 10-year low in 2013 following the global financial crisis.

The HIA expects a gradual upturn in renovations activity will be underpinned by a steady increase in the number of detached houses aged 10 to 20 years. They account for a disproportionate amount of renovation jobs, between now and the mid-2020s.

Strong property prices have boosted demand for renovations in markets like NSW. HIA senior economist Shane Garrett said many Sydney households that had been planning to move house find it is now more affordable to undertake a major renovation instead.

Homeowners have previously leaned more towards upgrading if they outgrow their current property but renovation appears to have become a more appealing idea, according to Mortgage Choice spokeswoman Jessica Darnbrough. She told AAP:

"Recently because property prices have continued to go up, people are seeing more value in renovating, using the equity."

Darnbrough believes that while homeowners could sell in the price boom, they would also have to buy again at high prices. So they are now thinking the cheapest and most effective way of making their property work for them is renovation.

The modest recovery will also be helped by record low interest rates and improvements in economic growth and the labour market, although the tightening of mortgage credit conditions towards the end of last year has cast an unwelcome shadow, said Garrett.

"We’re still seeing activity accelerating gradually… If prices in say NSW weren’t growing as quickly as they’re growing at the moment, what would have happened is that people who wanted to upgrade their home would have just moved home."

But because prices are growing so quickly, the cost and expense involved in moving to a bigger home now is so punitive that people are saying, ‘look why don’t we just renovate our home instead and achieve our increased living standard in that respect’.

Garrett said the knock-down and rebuilds market has also strengthened on the back of stronger home price growth.

Riki Tawhara, Hills District and western Sydney manager for buyer’s agents Cohen Handler, is tipping an increase in renovators.

"A lot of my clients who bought 12 months ago at the so-called peak of the market have managed in a year to manufacture quite a lot of equity in their property — not enough to buy again, but enough to draw that equity out and do a renovation on their property, increase their yield and the overall value of their property."

Costs of renovating

The quarterly Renovation Consumer Price index from ServiceSeeking.com.au found that renovation costs in Queensland fell by 0.35% to $62.09 an hour in the last three months of 2015 compared with a national average increase of 1.48%.

The index, which analyses 52,000 quotes submitted by tradespeople on the website, found landscaping, plastering and painting costs had fallen.

Although there was a decrease overall, Queensland homeowners are still paying 5.4% more than Victorians, the cheapest state for renovations. There were big increases in concreting and carpentry costs.

The cost of hiring a concreter rose by 22.4% compared with the same time last year, rising to $65.82 per square metre. Carpentry and building rates also increased, rising by 10.41% and 1.8% respectively.

Master Builders Queensland deputy executive director Paul Bidwell said building costs were still rising, driven by shortages of some trades and rising prices of raw materials. He told the Courier Mail:

"There are currently shortages of bricklayers, carpenters and site managers, which is going to have an impact on costs. With the lower dollar, prices of imported materials such as hardwood also are rising."
Last minute bid for UK’s Home Retail Group

Global retailer Steinhoff International has made a GBP1.4 billion (USD2 billion) counter bid for Britain’s Home Retail Group (HRG), taking on supermarket group Sainsbury’s for control of the company.

Steinhoff has a strong presence in Australia through its ownership of the Freedom furniture stores, franchised bedding chain Snooze and discount furniture retailer POCO, which opened its first store in Blacktown (NSW) in 2013. It also owns local department store chains Harris Scarfe and Best & Less through its purchase of Pepkor Holdings in 2014.

Steinhoff’s all-cash proposal values each Home Retail share at 175 pence, according to a statement by the company. That’s more than the 161.3 pence a share in cash and stock Sainsbury agreed to pay.

Steinhoff unexpectedly entered the fray just days before a February 23 deadline for Sainsbury to make a formal offer. It is seeking to gain control over more than 800 shops as part of HRG including the Argos chain.

Home Retail confirmed it received the approach, which it said it’s reviewing. Steinhoff said it is seeking a recommendation from the UK company and has a deadline of March 18 to make a formal bid under British takeover rules.

European presence

Acquiring HRG would further increase Steinhoff’s presence in Europe, where it gets more than half its 135 billion rand (USD8.8 billion) of sales from operations in the UK, France and Germany. Founded in Germany in 1964, the business listed in Johannesburg a year after the 1997 acquisition of a stake in a South African furniture company.

Steinhoff switched its primary listing from Johannesburg to Frankfurt in December 2015, reflecting Europe’s increased importance to a company that is now based in Amsterdam.

A takeover of Home Retail would be Steinhoff’s biggest since it bought South African clothing retailer Pepkor Holdings Pty Ltd. for 62.8 billion rand (USD3.8 billion) in 2014.

Steinhoff has not yet revealed what its plan for Home Retail, specifically Argos, would be if its bid becomes successful. Sainsbury wants to snap up the Argos brand to create a “leading food and non-food retailer of choice for customers” in the UK and because it believes it can contribute considerable earnings to its overall results in the first year of ownership and deliver substantial cost synergies.

Steinhoff said its offer comprises 147.2 pence a share in cash, plus a 2.8 pence dividend and 25 pence to reflect Home Retail’s sale of the Homebase home improvement chain to Wesfarmers.

Hoist maker’s plunges to $69m loss

Hills Ltd has crashed to a bottom line loss of $69 million in the first half of 2015-16. It is in further talks with its bankers over more refinancing which it hopes to have in place by the end of April.

As the inventor of the Hills hoist clothesline in 1945, it became a fixture in Australian backyards in the post-war period.

Since late 2014, it gave up control of the Hills range of clotheslines and gardening products in a deal with retailer Woolworths which secured the exclusive distribution rights in Australia and offshore for 19 years.

A large part of the range was sold through the Masters hardware chain which Woolworths is shutting after major losses.

Hills chief executive Grant Logan, who succeeded Ted Pretty in May 2015 after Pretty’s aggressive transformation of Hills ran into strife, said the company had $182 million in tax losses which could be utilised in future years “so that the tax Hills pays in the next few years will be close to zero”. He said:

In the second half we plan to continue with cost and working capital reductions.

Hills booked $66 million in impairments after a review of the assets in the business which sent the bottom line plunging to a loss of $69 million for the first half, compared with a net profit of $9.2 million a year earlier.

Revenue at Hills was down 28% to $164.1 million. Logan said it was “disappointing and distracting” to have to book more impairments. He reiterated that Hills was now taking a “back to basics” approach.
During the first half of 2015-16 Hills reworked its financing facilities, reducing an unsecured $110 million facility to a secured $55 million facility. Further talks are underway with the bankers to refinance the smaller banking facilities and an agreement is expected to be finalised by April 30.

**Hot property lifts profit at Harvey Norman**

Harvey Norman has reported that underlying profit before tax — excluding net property revaluation adjustments — lifted 22% to $241 million.

Sales across Harvey Norman stores rose $194 million to $2.72 billion or 7.7% for the six months ended December 31. Like-for-like store sales were up 8.8%.

Net profit rose 31% to $185.5 million in the six months to December 31.

**Building on success**

Record low interest rates, low unemployment, record new home building, and strong house prices are all driving stronger sales at Harvey Norman. Chairman Gerry Harvey told Fairfax Media:

> We’ve got a situation where there’s another million people in Australia today than there were three-and-a-half years ago and we’ll have another million soon enough. You’ve got to house them and they need jobs and there will be fridges and bedding sold.

Australians broke ground on a record 211,860 new homes in 2014-15, up 13% on the previous record of 187,000 set in 1994. The Housing Industry Association is tipping the 2015-16 year to exceed 200,000 new home starts.

Harvey believes the market is hot and the electronics, computers and technology segment is enjoying a “mini-boom”. He said:

> Australian macroeconomic conditions have had an upward trend for three years and have been favourable for consumption in the homemaker and lifestyle categories.

Harvey expected “robust” construction and housing activity in the year ahead to drive further sales, “particularly in NSW, Victoria and the ACT” where dwelling starts are “materially above long term averages”.

Stronger economic conditions in Ireland also saw Harvey Norman achieve its first profit in the country since December 2007, while sales in New Zealand were strong on the back of solid conditions there.
Leading Dulux trade sales in SA

The role of a state sales manager (trade) in SA for Dulux will be tasked with managing, developing and leading a team of sales professionals in a highly competitive market. With a proven track record of driving sustainable brand and category growth within a trade based environment (or similar), the ideal candidate will leverage strong functional experience, commercial acumen and leadership capability to identify and implement profitable opportunities for the business.

http://goo.gl/NcCPGn

Career driven sales manager

Industrial retailer Blackwoods requires a Sydney-based area manager who will report directly to the state sales manager. Responsibilities include exceeding budgets through effective management and implementation of new sales strategies and procedures. Tertiary qualifications in business management, sales or similar will be highly regarded but not essential.

http://goo.gl/Aw4969

Work on brands at Selleys

Selleys is offering a position for a highly creative and strategically minded brand manager. The successful individual will be mainly responsible for the repair and fix category that includes brands such as Aquadhere, Araldite, Quick Fix and Tarzan’s Grip. This is an opportunity to be involved in all aspects of the marketing mix including strategy, communications and innovation.

http://goo.gl/RAa60b
Special Advertising Section
Data and POS systems were not something retailers willingly spoke about 20 years ago. Today, however, “data” is the “new black” as far as retail business is concerned. Retailers know the more information they have about inventory, transactions, accounts and customers, the better and more profitable their businesses will be.

Over the past 25 years the SYM-PAC point-of-sale (POS) system, specifically designed for hardware retailers, has also evolved. What began as a system largely based on tracking sales transactions has continued to integrate more business functions. Today it is close in capability to a full-blown enterprise resource planning (ERP) system, like those used by big business.

The good news is, however, that SYM-PAC is very far from losing touch with the real world of the average retailer’s work life. Through its long history in the industry, SYM-PAC has been constantly learning from its customers. It has developed tailor-made solutions which it later releases to the general benefit of all customers.

That’s reflected in a comment by Vitina Costa, owner and CFO of Costa’s Mitre 10 group of stores in the western suburbs of Melbourne, Victoria. Speaking about her company’s adoption of SYM-PAC, she says:

“We have never looked back because as our business has grown and evolved over the years, SYM-PAC has been able to assist in providing us with a total information technology solution — which includes all areas from POS, debtors, creditors, general ledger, stock management and pricing.

SYM-PAC has always provided us with leading-edge technology and business solutions that have enabled the Costa’s management team to make the correct business decisions based on timely and accurate information.

Controlled integration
A good example of how SYM-PAC develops new capabilities then makes sure they work in the real world can be seen in the way it helps retailers deal with margins. Looking after the margin on sales, as every retailer knows, is very important, but in hardware in particular it can be tricky. As Chris Bradley, the owner of Chris’s Timber & Hardware in Seymour, Victoria puts the problem:

With a lot of the stock we were buying, we’d set up to buy the stock at a certain rate — and then, over time, the supplier would have a price increase of 1% or 2% or 3%.

You are always busy and sometimes you don’t take any notice of that — and before you know it, your pricing and margins are not right.

We found a lot of stock was way underpriced for what it should have been selling at.

SYM-PAC provides many tools to help manage margins on goods sold. The inventory module of the software can accommodate five separate pricing structures, with quantity pricing included for each, as well as contract pricing and forward pricing. The inventory’s catalogue reporting function also gives a clear indication of gross profit, cash flow and stock remaining. (http://goo.gl/wv9pD6)

Of course, the SYM-PAC tools accommodate more than just easy access to supplier charges. Actual sales themselves also affect the margins. SYM-PAC has this covered, too. As store manager Brennan Carolan of Coolum Beach Mitre 10 in Queensland puts it:

The ability to change margins so quickly has made life a lot easier. We’re able to make the adjustments we need based on very easy access to sales information.

There is also Margin Magic, which provides retailers with a spreadsheet-like view of products for sale,
and enables them to tweak the numbers on margins, modelling what the results of any change would be. (http://goo.gl/rBU3Xw)

Finally there is SYM-PAC’s Dashboard onscreen report module, which can provide a clear summary of transactions over a set date range, with enough detail to see how overall margins are working out. (http://goo.gl/VFwAec)

Many canny retailers will likely spot one problem with this kind of macro approach to setting prices and margins: What about special customers? Just about every hardware business has price-sensitive arrangements with certain customers, and if an unexpected price increase shows up on their next invoice, at the very least there will be questions asked, and you could even lose that business.

Well, guess what? SYM-PAC also has that figured out for retailers. This is done using a Customer Watch List. Paul Krawczyk, owner of the Nubco Group in Tasmania, notes that customers can have their own price list for items they regularly purchase from the store, and would normally experience a price increase automatically.

That is not ideal for particularly commercially price-sensitive items, where the customer is sourcing them from us for a reason. We can now flag any particularly sensitive items on a customer price list, and then take the steps we need to override an automatic increase for that product, for that customer.

This capacity to engage with customers and deliver solutions is part of what makes SYM-PAC unique. “We listen, we innovate and we deliver,” says Mark Schmutter, SYM-PAC’s General Manager.

This is more than just a slogan for us – we are in constant discussion with our customers about what their business issues are and how we can address their needs.

Those customer ideas flow internally through to our technical and development teams, where we discuss the business problem being raised and look at how we can improve SYM-PAC to address the process.

**Suggested Ordering**

Of all the innovations SYM-PAC has brought to retail management, one of the most popular (based on customer comments) is its Suggested Ordering capability. Gavin Gusmeroli, owner of the Ingham Manufactures Mitre 10 in Ingham, Queensland, is particularly enthusiastic:

Probably one of the best things in my opinion is SYM-PAC’s Suggested Ordering – brilliant to use by min and max, and the sales history options. The min and max quantities that you put in originally govern the initial quantity to be ordered, but if SYM-PAC recognises you need more – because you’ve been selling more – it will use your sales history to govern the quantity to order.

That’s just one of many accolades for Suggested Ordering. Chris of Chris’s Timber & Hardware is also enthusiastic. “Our re-ordering with SYM-PAC’s Suggested Ordering system will be a lot easier, and this will take a lot of pressure off us.”

One of the people most definite about its benefits is Alan Braybon, store manager of the Deniliquin Mitre 10 in the Riverina region of New South Wales:

SYM-PAC’s Suggested Ordering, in particular, has saved us hundreds and thousands of hours throughout the business. The savings are almost unmeasurable over the past 18 years.

Again, of course, canny retailers will know that even a system like this bound to have some “real world” flaws, but SYM-PAC, through its years of experience and development, has many of those covered as well. We’ll let Paul from Nubco explain the situation:

We wanted to deal more efficiently with a situation where you have, for example, a giant tool set in stock. You may have only one on the floor and one in stock. Say you sell one of these giant toolsets – you only run your Suggested Ordering once a week, you might not know for another week that you need to order another one to restock.

The SYM-PAC solution to this situation is to take Suggested Ordering one step further, and set up Automatic Ordering. Under the latter, whenever product stock drops below a set level, an order is automatically produced. It has proved an effective system, par-
particularly during times when a discount catalogue is in use. Paul praises the results:

As a result of implementing this, our out of stocks are lower, and our warehouse ships out pallets to the stores overnight as required.

SYM-PAC GM Mark Schmutter sees Suggested Ordering as a great strategic tool.
“Suggested Ordering is the path you need to take to improve the productivity of your stock and put more cash in the bank,” says Mark.

“We provide people with the tools and understanding of how to make that real.” (http://goo.gl/O4mqVe)

Auto Email
Another SYM-PAC feature that has proved very popular is Auto Email. Auto Email enables the retailer to immediately email invoices, quotations and purchase orders from within the system, based on the completion of a transaction. This isn’t just a convenience – many retailers find it has a real effect on their cash flow, as it speeds up invoice payment times.

That is a benefit that has certainly been noted by Gavin of Ingham Manufactures Mitre 10:

Emailing our invoices with the Auto Email function has moved our cash flow forward by 30 days. Everyone gets paid earlier – happy times!

Richard Vibert, the store owner of Viberts Mitre 10 which has a store in Tatura, Victoria doesn’t think of auto email so much as a feature, as a basic requirement. “Our customers are enjoying the integrated EFTPOS and signature pads, and the Auto Email for emailing invoices and statements not only saves a bit of money, but is also what our customers expect.”

Point of Sale
It’s impossible to discuss SYM-PAC without mentioning the part of the system that is fundamental to everything it does – POS. Many retailers make comments about how much better the SYM-PAC system is when compared to other competing products. As Geoff Glenn, a director of Prime Industrial Products, a hardware retailer located in Bunbury, Western Australia, states:

Nothing compares. The speed of functionality in POS with a high volume, and with a large stock database, is another key reason we chose SYM-PAC.

James McConnachie, the general manager of Emerald Mitre 10 in Victoria agrees: “I love the POS system! It is user-friendly and very easy to use.” Martin Crocker, the owner of Earls Hardware in St Kilda, Victoria, completely agrees. “The best part of SYM-PAC for us are POS and inventory. We love it!” he says.

Another fan is Chris of Chris’s Timber & Hardware:
Our customers are much happier because they have their invoices emailed straight away – they love that!

In the past they were always chasing me up for an invoice, and I was always telling them ’give me a couple of days and I’ll type it up’, because of course we would have to write it all down by hand, and then we’d have to type up an invoice – it was very time consuming. Now, half the time they’ve got it before they even get back in their car!

Other features
The many useful features enabled by SYM-PAC are too numerous to mention. While not all of them will be used by every hardware retailer, most retailers will discover some favourites. For example, Paul of the Nubco Group has become a big fan of SYM-PAC’s customer relationship management (CRM) module. “This will revolutionise customer service,” he says. All Nubco sales staff have been issued with laptops, enabling them to log straight onto the SYM-PAC system and enter the details of their sales calls soon after they have been completed.

Help and Service
We’d be remiss if we didn’t mention one aspect of the SYM-PAC product that every retailer really does praise: the company’s help desk and general level of service. As Richard of Viberts Mitre 10 put it:

The most surprising and pleasing discovery is the Help Desk. It was wonderful to find that all the positive things I’d heard were actually true.

Geoff of Prime Industrial Products is also impressed with the personnel he gets to talk to at SYM-PAC. “We have access to support and people who directly deal with the design of the solution, and we don’t take this for granted,” he says.

There are a number of different ways you can contact SYM-PAC’s Help Desk – first and foremost is via a good old-fashioned phone call! – and speak to a live person straight away. All customers have access to Client Services on a 1300 number, which is available 7 days a week, 363 days a year.

“We are very committed to person-to-person direct contact for our Help Desk area,” says SYM-PAC GM Mark Schmutter. “This is really important for us and we have constant feedback that this is part of what makes us stand out in the market.”

Contact
To learn more about how SYM-PAC can help your business, go to www.sympac.com.au for product information and case studies. Or call 1800 SYMPAC | 1800 796 722 and start a conversation.