HI NEWS
Vol. 7 No. 2

BUNNINGS
NEW DIGITAL SUPERPOWERS?

WESFARMERS STRATEGY DAY 2023



REMEMBERING GRAEME DANKS

HBT 2023

NATIONAL CONFERENCE

CAIRNS

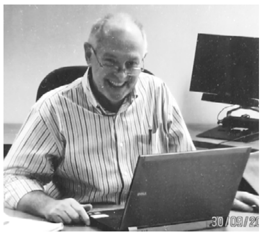
BOOK NOW!

AUGUST 21—24

DON'T MISS THIS ONE!

contents

HI NEWS VOL 7 NO 2

Wesfarmers Strategy Day 2023

It seems likely that Australia is entering into a period when its relationship to its past commercial history is changing. One aspect of these shifts is that the immediate strategies of Bunnings – which are important to the overall hardware market in Australia – are set to become more entwined with the overall functioning of its parent, Wesfarmers.

That's not to say that there's been much of a shift in responsibilities, as Wesfarmers MD Rob Scott made clear. But, with the advent of OneDigital, which combines responsibility for OneData, its analytics workshop, along with OnePass, its customer loyalty program, the conglomerate now has a somewhat different stance when it comes to facing the future and developing new strategies.

From HNN's perspective, a strong undercurrent to the Strategy Day was the early development of a conversation between the investment analysts and Wesfarmers' management about those new strategies. That discussion is being driven by two main factors: the increasing importance of the digital in accessing markets (including less-digital markets); and the maturation of the Wesfarmers retail business model, which brings with it a reduction in its structural (therefore exponential) growth potential.

10

Remembering Graeme Danks

For someone like Graeme Danks who served as managing director of Danks Holdings, there are many people who can attest to his achievements. However no-one had a front-row seat for as long as Errol Kennedy, a close colleague and friend.

For the story on Graeme Danks, HNN feels fortunate to be able to make contact with Errol Kennedy. His perspective on Graeme is far more important than ours, and we were able to tell the story through his eyes.

Errol is a 44-year plus veteran of Danks, a work lifetime that includes an 18-month stint at Independent Hardware Group (IHG) before he retired. From starting out as picker on the floor in 1974, Errol worked in managerial roles across dispatch, warehousing, vendor relations where he was involved in barcoding, and purchasing. He was often with Graeme during those times as well as outside his working life.

This story would not have happened without Con Dekazos making the connection between Betty Tanddo and Errol Kennedy.

Thank you to Errol Kennedy, Con Dekazos and the Danks family.

30

Publisher's Note

Our story on Graeme Danks started with contact being made by Con Dekazos, which led to a welcome connection with Errol Kennedy. What we found was a quiet, unassuming man who had an outsized impact on the behind-the-scenes development of Danks, as well as a story about a responsible, warm company that brought out the best in hardware.

4

Comment

The meaning of "digital" commerce is set to undergo a shift in the near future. While today we think in terms of omnichannel or connected commerce, in the future we'll just have "commerce", and that will include digital connection with customers.

7

publisher's note

It can be difficult to write about someone who has passed away, whether you are personally close to that person or there was more of a professional connection.

For the story on Graeme Danks, I feel fortunate to be able to make contact with Errol Kennedy who worked at Danks for most of his career. His perspective on Graeme is far more important than mine, and we were able to tell the story through his eyes.

Errol was at Danks at a time when the business was experiencing major growth and change happened quickly. He told me:

When I started working there, it had about 120-odd staff. Everything was manual. Graeme was actually the warehouse manager, and he moved up to become IT and they bought the computers in. Then the computers came into the warehouse.

Later, after I became dispatch manager, we had an American couple who were our computer people. And I got on very well with them. And I'd say to them, 'Why don't we have RS [retrieval system] or AS [automated storage] picking?' And I would talk it over with John, and then he would go and talk to his wife. Next thing, a day or two later, we got this part picking or RS picking business.

It was a really great time because we had bought two or three companies, and we had to move them into one warehouse. We extended the warehouse and it was a new design...

Errol Kennedy is content in retirement after working in the hardware retail industry for just over 44 years

Errol was very dedicated to Danks and came across the job there almost by accident. He said:

My wife used to joke with me, you know, because of the hours I used to put in. She'd say, 'I've planned your funeral Errol, it's going have a Danks truck with the costume!'

But it was great time. Believe it or not, I actually did work for another company prior to Danks. My father had a hardware store in Richmond, and I worked with him for about 20 months or so. And then, when dad decided to get out of hardware, I said, 'Well I'll get a job'. I had the Danks rep come in and he said, 'Look, they need new people at Braeside'. So I thought I'll go there and get a job with Danks until I find a proper job.

The "proper job" turned out to be a lot more than the Danks warehouse for Errol.

I started helping them with different things, and travelling interstate, that sort of thing. Danks moved me into a vendor relations role because we were having bottlenecks. We had the RS system, but we didn't have barcoding. So I got into a role where I started *talking to suppliers about putting on barcodes on the outside of their cartons. And that's when I got involved with GS1 on their committee.*

I did that for about three years and then took up the role of purchasing. The buyers would decide they want to buy a blue hammer. And then it was my role to ensure that we had the blue hammer in stock in all the sites and so I did that until we got bought by Woolies.

And then when Mitre 10 (IHG) took over, I did it for a short time. Only because we had a system, Mitre 10 had a system and obviously they wanted to move over to the Mitre 10 system. So we had to keep the Danks warehouses going on the Danks system. I taught the Mitre 10 guy our system, and then he took over running that and I took over a role with Mitre 10 of clearing all the dead stock. In other words, Danks had a blue hammer, Mitre 10 had a green hammer. Which one sold better? The green hammer? So I had to clear the blue hammer.

That was a fairly big job, which I did for about 18 months. They offered me a redundancy package, and after 44 and a half years of working in the industry, I thought, I'll do it.

Errol's friendship with Graeme continued into their retirement and there were regular coffee catchups. From Errol's perspective, Graeme battled his illness with strength and remained modest to the end. There are a lot of memories.

He was a gentleman. One of the things Graeme did was always have a clean car policy. On a Friday, the reps would come in and go into their meeting and he'd walk around with his keys, checking the boots to see who had golf clubs. Ha ha! Yeah, we had a lot of fun but some of the stories I'd better not tell you.

To read more about Graeme Danks, turn to page 30

Betty

HBT 2023 NATIONAL CONFERENCE CAIRNS
21ST – 24TH OF AUGUST

3 reasons why you really should come to Cairns

21—24 August

1. Cairns: the city

2. the conference

3. members & mates

comment

A significant reason why we chose to highlight the most recent Wesfarmers Strategy Day in this issue of HI News is that we think there are bigger changes afoot in Australia's hardware retail industry as a whole.

Due to its size and its success, those changes tend to get highlighted in a useful way in Wesfarmers.

One core point we wanted to make was that the kind of growth that we've seen in Bunnings (and much of the rest of Wesfarmers' retail as well) is coming to an end, and slowing down. That's not a "mistake" by any of the conglomerate's able managing directors. Nor does it represent a general decline in retail itself.

What it does represent is a final maturing of these markets. In effect, operations such as Bunnings are not really moving much vertically in their markets anymore. Their expansions are instead horizontal — more stores and bigger stores, but not really different stores at all. Bunnings' most recent acquisitions and semi-startups, Beaumont Tiles and Tool Kit Depot, fit into the same definition.

This means that there is less true innovation, and much more of a focus on efficiency. To compensate for the lack of innovative growth, there is more application of simple scale. But without structural change, exponential growth is not possible.

One reason why the retail industry — and hardware in particular — has become "stuck" at this particular stage of development is that it faces something of a chasm it needs to get across. On the side of the chasm where retail currently lives, the idea of the "digital" is interpreted as being mostly about online ecommerce transacted through websites, and some helpful mobile apps to aid with in-store shopping.

On the other side of the chasm, the idea of "digital" almost disappears — which is a common development with technology. In the 1920s and 1930s you could go into any household and individually count the number of electric motors used in day-to-day life — and there would be only two or three. By the 1960s, there were perhaps a dozen, and today it is much more.

Similarly, in the 1990s, you could count the number of computers used in a household. Today the number is quite large, because there is a silicon chip in just about everything, from power tools, to dishwashers, as well as every smarthome device. Nobody says "my clothes dryer has a computer in it!" — even though, of course, it does.

Across the digital chasm in retail, no one is thinking about ecommerce — there is just commerce, because the "e" part is naturally "baked into" everything to do with retail.

To use a simple example, if you've done any kind of slightly complex unique DIY project, one of the areas you find yourself tripping into is materials engineering. Once you've determined the dimensions you are using, and (let's say) the type and general sizes of wood required, you're faced with the task of buying that wood in lengths that can be cut to size.

How do you optimise that purchase? Most DIYers scribble numbers on a notepad, and end up buying around 10% more wood than they really need, so as to avoid another trip to the hardware store late on a Sunday. (And we've all seen what their garages look like!)

It's a common, annoying task, and yet there is nowhere, on any hardware retail website, where you can just enter a list of the finished sizes you need, and have the software optimise the wood purchase on the basis of price.

All that takes is about 11 lines of Javascript (you use graph theory, with lengths of wood as edges, etc.). Some would say, of course, that to offer such a calculator works against the interests of the retailer, as it decreases the value of the order. Yet the reality is that this creates value the retailer is providing to the customer; it's a discount not only on the price of the wood, but also on the effort required to make what is otherwise a simple purchase.

This is what structural and vertical change looks like in the emerging retail markets. One way of conceptualising this is as "whole of purchase" thinking. It is a way of shaping demand from customers prior to purchase, a deeper involvement in the initial decisions, an integration into needs.

And this is where the exponential lives.

TWIN TUBES

- OUR ORIGINAL EPOXIES
- BONDING AND GAP FILLING
- MOST VERSATILE

SCAN QR CODE TO WATCH
OUR HOW TO VIDEOS!

SCAN ME

SYRINGES

- HIGH STRENGTH, TWO-COMPONENT ADHESIVES
- PRECISE 1-TO-1 RATIO
- EASY AND CONVENIENT TO MIX

SCAN QR CODE TO WATCH
OUR HOW TO VIDEOS!

SCAN ME

PUTTY STICKS

- HAND MIXABLE EPOXY PUTTY
- MOULDS TO FIT & SHAPE
- SEALS & FILLS CRACKS & HOLES

SCAN QR CODE TO WATCH
OUR HOW TO VIDEOS!

SCAN ME

J-B WELD®

WORLD'S STRONGEST BOND™

www.jbweld.com.au

SCAN TO DOWNLOAD
CATALOGUE!

Wesfarmers Strategy Day 2023

The most recent 2023 Strategy Day for Wesfarmers was one of the better events for the company over the past eight or nine years. In part that was due to a change in format, with more time allocated to questions by analysts, reducing the time spent on presentations by divisional managing directors (MDs).

Equally important was the timing of the event, which comes as corporate Australia begins to get some sense of how both the economy and markets are adjusting to post-COVID-19 uncertainties — that curious mix of inflation, higher interest rates, fluctuating supply-chain expenses, and the kind of wavering foreign exchange (FX) rates you get when competing national interest rate rises are in play.

Above, the front entrance aisle for one of Bunnings' most recent and largest warehouse stores, located in the northern Melbourne suburb of Preston.

But there is a third factor as well. It seems likely that Australia is entering into a period when its relationship to its past commercial history is changing. One aspect of these shifts is that the immediate strategies of Bunnings — which are important to the overall hardware market in Australia — are set to become more entwined with the overall functioning of its parent, Wesfarmers.

That's not to say that there's been much of a shift in responsibilities, as Wesfarmers MD Rob Scott made clear. But, with the advent of OneDigital, which combines responsibility for OneData, its analytics workshop, along with OnePass, its customer loyalty program, the conglomerate now has a somewhat different stance when it comes to facing the future and developing new strategies.

From HNN's perspective, a strong undercurrent to the Strategy Day was the early development of a conversation between the investment analysts and Wesfarmers' management about those new strategies. That discussion is being driven by two main factors: the increasing importance of the digital in accessing markets (including less-digital markets); and the maturation of the Wesfarmers retail business model, which brings with it a reduction in its structural (therefore exponential) growth potential.

The culture of retail

Wesfarmers retail really came into its own in the 2000s, and it was driven — at least in part — by the radical shift from the tariff-based economy that remained active up until the late 1990s, to the more open market that developed fully in the early 2000s.

The tariff-based economy provided the proverbial "golden handcuffs": employment was sustained, but at the cost of a kind of social and economic stasis. Imports were artificially priced higher to protect local production, which meant that items such as power tools were priced higher in the Australian market than overseas.

The insight of then-Wesfarmers MD Michael Chaney when he started Bunnings (carried on later for Kmart, Target and Officeworks) was that in the ex-tariff economy price would become a far more dominant factor than it had been previously. Price wasn't just about making living more affordable. For Australians, it opened the door to new forms of social mobility and family experience.

As tariffs had a tendency to "flatten" prices between retailers, in pre-1990 Australia competition was based on sourcing and supply combined with perceived levels of service. By

Logical Incrementalism

Michael Chaney AO, Non-executive Chairman with works by Jan Billycan and Ben Quilty, from The Wesfarmers Collection

Wesfarmers' chairman Michael Chaney appeared on an episode of the 2fold podcast with Caroline Gurney. The following is a transcript of Mr Chaney's response to the question: "Given its current size can [Wesfarmers] actually sustain the growth? And where is the next leg of growth coming? Is it pharmacies? Is it lithium? You know, is it how you use your data?"

I did an exercise for the Board recently where I produced a pie chart to illustrate this point of the makeup of the group at the end of every decade since we went public in 1984. The pie charts are unrecognisable one decade to the next. So we were dominated by a fertiliser business when we went public that produced 50% of our profits. That same business today is 1%.

The reason we've changed is that we've been driven by that single purpose statement about shareholder returns. That's allowed us to look at investments across the board and to take them where we felt A) they were ethical but B) they gave good returns. And so we've moved from being an agricultural company to at one stage dominated by coal mining, then by retailing and supermarkets, and now by Bunnings.

And we move, it's called logical incrementalism, we move as the opportunities present to either buy or sell businesses or expand them. And so in ten years' time we'll look different to what we do today. But none of us knows how.

To listen to the podcast go to:
futuregeninvest.com.au/2023/05/28/2fold-mi

solving both supply and price, Bunnings was able to concentrate on price as the main driver of revenues.

Lower prices could only operate profitably at scale, which meant there was a unique gap in the market where Wesfarmers could apply capital very effectively. This combination resulted in Wesfarmers following less of the pure "service" model for retail, and more of a manufacturing, factory-based model.

The product of these "retail factories" was not the cosy customer/retailer relationships of the past, but instead a rigorous pursuit of the lowest price possible. The factors that, historically, other retailers had concentrated on — in-store service, store amenity, lavish advertising, "prestige" products — were eliminated or reduced to what was strictly facilitative to that overall lowest price structure.

Today, however, that situation is changing. Paradoxically, the lowest-price structure is becoming somewhat less efficient. That's because efficiency is not determined solely by the product being produced, but rather by the product/market fit.

What is happening in 2023 is that the market has evolved to be structured digitally. This doesn't mean that the customers for Wesfarmers' retailers have become necessarily more digital in their lifestyles. But digital is now the key that can unlock market access. In becoming digital, that market access is now more pervasive and more efficient than previous analog approaches.

The Officeworks experience

Officeworks in many ways represents the place where that inefficiency potential has its strongest presence. This is not surprising, as one major competitor is the Australian operations of US online retailer Amazon. Added to that, much of its product focus is on technology, which in itself is, as expected, one of the more digital of all markets.

Anyone looking at the progress of Officeworks over the past five years would be impressed by the performance of its MD Sarah Hunter, who assumed that role in 2018. Starting with sales of $2.3 billion in FY2019, this increased to $2.8 billion in FY2020, then $3.0 billion for FY2021 and $3.2 billion for FY2022. Meanwhile Amazon reported revenue of $2.6 billion for calendar 2022, representing an estimated $4.0 billion in gross merchandise value sold through its website.

How was Ms Hunter able to maintain growth in such a difficult environment? Some clue is given in her response to a question from Shaun Cousins of UBS at the Strategy Day,

Pace of disruption

Sarah Hunter, managing director of Officeworks

Officeworks' MD Sarah Hunter was interviewed by Ben Hammer for PWC on the "Exploring the future of work" podcast in 2020. This is an excerpt.

Ben Hamer: I want to draw on something that you've said publicly before. It's when you were talking about your organisational strategy and you said: "We had to consider what worked in the past. That wouldn't work in the future. Our customers expectations are changing all the time and we need to be across that". So to me, that's talking about disruption, that's talking about how organisations need to adapt and evolve and pay tribute to what might have worked in the past, but it's not necessarily going to get us to where we need to go. It all sounds a bit fortuitous with the whole COVID-19 thing happening.

Sarah Hunter: It is interesting because I said that a definitely a couple of years ago and now you play it back to me, it is amazing how fortuitous it probably sounded. I think the reality is with the level of disruption and change that's been happening in society for many, many years, with the advancement of technology, those words were clearly true a couple of years ago and probably a couple of years before that, but really resonate this year or in 2020 because the pace of what's changing and the pace of disruption has just accelerated so immensely. It certainly feels like in my business in 2020 we've had three to four years of change in just an eight to nine month period.

To listen to the podcast go to:
www.pwc.com.au/future-of-work-design-for-the-future/future-of-work-podcast/sarah-hunter-retail-in-covid-19.html

where she outlined how the retailer was taking advantage of generally declining categories.

> *So A4 paper, we backed ourselves on availability when there was a change of sourcing late last year with VicForests and Australian Paper ceasing production. It's pretty hard to buy paper anywhere other than Officeworks at the moment at scale. We've seen market share growth from 20% to 28% over three years and it's really profitable growth. So I think our sales over the last four or five years speak to the fact we can continue to introduce new categories, grow our business and grow our share.*

To add another point of reference, David Errington of Bank of America Securities did give Ms Hunter an interesting example of a different kind of decline:

> *Last night I needed some pens, so I went to Hunter Street and bought a box of J. Burrows, 50 pens for $10. Excellent, fantastic pens, thank you. The branded offer was three pens for $10... But I may never buy another transaction of pens ever again. And I'm interested, how do you actually manage that, Sarah, in terms of sustainable sales and gross profit? Because it's a fantastic offer, but you've just probably cannibalised the branded offer .*

Ms Hunter responded:

> *That's part of recognising that even though you bought a box of 50 pens, of course you'll be back for some paper, or when you need a notebook. It is about that mission. So recognising that we solve a number of problems for customers. The convenience of the Hunter Street store is a great example of a CBD convenience offer, where you want to have the right range in store to be able to meet the needs of what customers need in that environment.*

As a third point of reference, let's look at printers. In the more savvy, techy part of the world, printers are looked on as a kind of necessary evil, and the general advice (from sources such as the tech consumer website TheVerge.com) is to just buy a cheap Brother monochrome laser printer.

Amazon sells the Brother HL-2350DW, for $159 (at the time of writing). Officeworks sells the Brother HL-L2305W, also for $159. The big difference between the two of them? That "D" in the model number. Amazon's 2350DW offers duplex (two-sided) printing, and Officeworks' 2305W does not — making it, in these eco-conscious days, a much less desirable item.

The Amazon printer is also faster, and can use higher-capacity toner cartridges, reducing per-page costs. It varies between being Amazon's third to sixth most popular computer printer for Australia, but remains its most popular laser printer.

Printer wars


The Verge Menu +

BUYING GUIDE / TECH / GADGETS

Best printer 2023: just buy this Brother laser printer everyone has, it's fine / The Brother whatever-it-is will print return labels for online shopping, never run out of toner, and generally be a printer instead of the physical instantiation of a business model.

Brother HL-L2305W

Page handling: Single-sided
Connectivity: WiFi, USB
Max. Cartridge Capacity: 2600 page
Officeworks price: **$159**

Brother HL-L2350DW

Page handling: Double-sided
Connectivity: WiFi, USB
Max. Cartridge Capacity: 3000 page
Amazon price: **$159**

Brother HL-L2375DW

Page handling: Double-sided
Connectivity: WiFi, USB, Ethernet
Max. Cartridge Capacity: 3000 page
Officeworks price: **$214**

Officeworks does sell the Brother HL-L2375DW for $214 — in fact, this seems to be exclusive to Officeworks in Australia. It's very similar to the Amazon's 2350DW, except that it offers, in addition to WiFi and USB connection, 10Base-T/100Base-TX networking (Ethernet). This is a good feature, but is not mentioned in the product description on the Officeworks website, making the $55 (35%) price bump up on the Amazon printer seemingly inexplicable.

It's not good to fail in such a major category — but it is understandable. Amazon is tough to compete with because you're not really competing just with Amazon, but also with a major brand's global reliance on that retailer. It's a game of constant catchup, and sometimes you lose.

That doesn't diminish what has been cobbled together at Officeworks, this surprisingly successful patchwork of minor, yet elsewhere underrepresented markets. Yet even with ongoing growth, it is evident this has a risky future. A4 paper is a fading market. The J. Burrows pens are the only option left for Officeworks when Amazon sells 50 classic BICs for $19, and — worse — Coles sells (on special) 12 BIC pens for $4.

Yet that spectre of decline might be more imagined than real. When we talk about "declining" markets, we don't actually mean that a specific demand has gone away, but that the means of answering that demand have changed radically.

It is true that people have stopped buying as many file folders and file cabinets as they did in 2009, but they haven't stopped gathering and categorising information — in fact, most believe this activity has only increased. It's just entered a more "virtual" world of document files, spreadsheets and databases.

It might seem that a physical retailer such as Officeworks stands at a disadvantage when it comes to this changed market — but that is not necessarily the case. Officeworks is in a good position to take advantage of this shift, and that is largely down to all the hard work the retailer has done over the past five years. In the ranking of Australia's most trusted brands for 2023 by Brand Finance Australia, Officeworks ranks sixth, behind Bunnings in first place, then Woolworths, Coles, Telstra and Commonwealth Bank. Not bad company to keep. And this is consistent, with Officeworks ranking third in 2022.

In the factory-based retail model, this kind of achievement is seen, mostly, as recognition and feedback that the factory approach is working in the market. But in the digital-based world, this achievement is a signal of actual, effective value,

Brand ranking 2022

"Officeworks has become a household name for most Australians looking for office supplies while working from home, improving its BSI score by +6.3 points to reach 86.5 out of 100 and a corresponding AAA brand strength rating."
– Excerpt from Brand Finance Australia 100 2022: The annual report on the most valuable and strongest Australian brands January 2022

1 ↑ 9
BUNNINGS warehouse
88.5 +6.8
AAA

2 ↑ 5
Woolworths
86.9 +3.2
AAA

3 ↑ 14
Officeworks
make bigger things happen
86.5 +6.3
AAA

4 ↑ 7
coles
85.5 +3.0
AAA

5 ↓ 3
NRMA INSURANCE
84.4 -0.2
AAA-

brandirectory.com/rankings/australia/2022 which can be used to more effectively engage with the market. As it effects digital markets, trust behaves in some of the ways scale does in more analog markets.

Suppose, for example, that Officeworks expanded it's relatively simple mobile phone app to provide a service that helped its customer track expenditures, both by direct entry and by running optical character recognition (OCR) on images of paper receipts. The functionality could be quite simple. Any purchase from Officeworks itself would be automatically assigned, of course. Other purchases could be easily added, on a company basis, but also by individual owners/employees. When it's time to reconcile accounts, the accountant/owner could pull up all those expenditures through their online Officeworks account interface.

This is a common type of app, however almost all of those are paid, and are not all that popular — in large part because there's a lack of trust for the app developers. In fact, there probably is no other retailer that Australians would trust as much as Officeworks with that kind of data. It's not just Officeworks, either, it's also the reputation of Wesfarmers.

What does Officeworks get in return for offering such an app extension for free? Firstly, the app is in more constant use, which means being able to market more effectively. And those marketing messages are being sent at the moment the user is making or has made a purchase.

Secondly, there is access to a rich source of data. It would be very wrong to directly use receipt data to market to individuals, but most would be willing to have their data used if it were made anonymous, and categorised in broad geographic areas — for example by state/territory in capital city and "other" divisions.

That is access, in a broad sense, to the purchase data outside of Officeworks — which is pretty much the Holy Grail of retail market data. And it would be valuable not only to Officeworks, but to Wesfarmers retail as a whole.

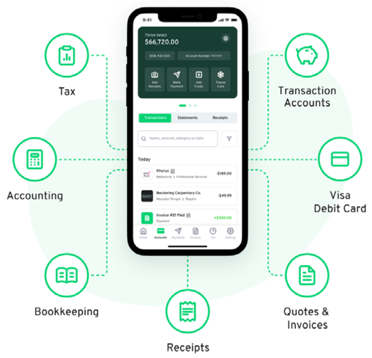
So, to trace that back: what used to be a direct physical product sales market for Officeworks instead becomes a service that enables better access to the market and to expansive market data. That is, in large part, the essence of the post-retail factory, digital markets model.

A Bunnings extension

We can easily extend that to thinking about Bunnings as well. One of the interesting statements that Bunnings MD Michael Schneider made in his presentation of the Bunnings strategy was about the division's move into the frame and truss business:

> *The way we're growing our frame and truss offer is a deliberate initiative to reach customers early, and it gives us the opportunity to really understand the building needs for their entire project, and consider how we can best provide these.*

Thriday



The Thriday app can deliver 90% of the functionality of Xero, with half the effort.

App development is not a "natural" area of expertise for an office supplies retailer like Officeworks. An alternative would be to enter into a "co-branding" arrangement with a company that could provide the accounting functionality that many small business Officeworks customers really need.

One candidate for this kind of co-branding would be the recently launched Thriday app. Thriday was originally developed in 2020 by Michael Nuciforo and Ben Winford.

Thriday raised $3 million with a crowdfunding campaign in March 2021, and launched its beta product in April 2022. The company then received a further $6 million in funding from NAB Ventures in July 2022. It launched publicly in October 2022.

The insight the developers of Thriday had is that small businesses do not see accounting functions as a positive net gain, but rather a tedious expense. In fact, Thriday could be thought of as providing 90% the functionality of Xero for less than 50% of the effort.

One way Thriday achieves this is by requiring users to open a specific bank account that is tied to the app. This eliminates all the tedious work of linking accounting software to accounts with various banks.

From Thriday's perspective, an co-branded edition of the app would give it access to a wide range of small business customers, with the backing of the most trusted brand in office supplies retail. From Officeworks perspective the integration would open up new opportunities for maintaining a constant marketing presence.

www.thriday.com.au/about

Generally speaking when you look at frame and truss — and Metcash's Independent Hardware Group (IHG) has been in this sector for a long time as well — these are businesses that are not known for their profitability and growth. As Mr Schneider is hinting in his statement, hardware retailers acquire them because they help drive other parts of the trade building business. Partly that's about relationships, but it's also purely about early access to raw building data as well.

Supposing there was another, better way of getting that data, even earlier in the build cycle? For example, what if instead of acquiring Beaumont Tiles, Bunnings had acquired a majority share in a company such as EstimateOne?

EstimateOne is an Australia construction industry service provider that solves the problem of construction companies tendering out their work to subcontractors. At the same time, the company solves the problems of subcontractors finding work with builders and larger construction suppliers. The complete range of services that EstimateOne provides includes: tender workflow for builders, a "tender noticeboard" for subcontractors, and a tender documentation platform.

It's has been around since 2008, and it sought and received capital funding of $35 million about the same time Bunnings acquired Beaumont's.

At the moment, EstimateOne faces an array of problems. First of all, there is one of scale. That funding round of $35 million is enough to guarantee ongoing development, but it barely touches the problem of scale. To become the dominant force in this industry sector, it likely needs another $90 to $100 million.

The reason why it is unlikely to get that much funding is that the financials on its existing market do not directly support that kind of investment. The construction industry in Australia is highly fragmented, at all levels, and the process of partially defragmenting it — which is really at the core of EstimateOne's mission — is going to be lengthy and difficult, with profitability only really coming into play near the end of that process. And, of course, once the industry has been defragmented, it becomes easier for a second-mover competitor to duplicate the process.

That is its problem a standalone enterprise. Consider, though, the value of EstimateOne when combined with Wesfarmers — especially as regards Bunnings.

On the most basic level, Bunnings would acquire a service that could become part of an advanced offer for PowerPass (and therefore OnePass) to trades and subcontractors. With detailed knowledge of where members worked in what trades, and — potentially — the kinds of jobs they usually did, they could be provided with a rich source of information about upcoming work.

Other side of the workflow

Co-founders of EstimateOne, Michael Ashcroft on the right, and Andrew Ritchie

EstimateOne founder Mike Ashcroft was interviewed by Martin Preece on the "Building Talks Podcast" podcast in March 2023. This is an excerpt.

Part of the cadetship [at Kane Constructions] is that you get to do some of those menial tasks... Back then that was calling the 300 subbies that you wanted to price the project. It was printing all the drawings that needed to go out into the packages for the subbies that were interested, photocopying the specification, packaging it all up, putting it all in the post, ringing all the subbies up again and saying, "Hey, did you get those drawings? Are you interested in pricing the project?"

EstimateOne, when it started life, was basically a tender workflow management tool specifically for head contractors to manage the processes, the digital equivalent of those manual set of processes that I just described. So that was the first part of it, and that's something that happens to be a relatively homogeneous process that almost all head contractors carry out in a very similar way. So it lended itself to being solved in a platform like way.

We are the market leading platform for that specific set of jobs to be done for estimators in Australia. The other part of it is that we established is a commercial construction network of subcontractors and suppliers on the other side of that workflow tool. We didn't set out to do at the very beginning, but I think has actually meant that the industry has benefited quite a lot more by the fact that we've been able to assemble that network.

Now that's something that all head contractors can tap into and use. Everyone's comfortable in understanding how the platform works.... So the industry benefits when you get this universal adoption of a platform for one particular thing.

To listen to the podcast go to:
www.buildingenvirons.com.au/podcasts/

But the advantages for Bunnings reach well beyond that point. EstimateOne could provide very early information not only on construction builds, but also detailed, precise information on the materials that will be used. That is available before the process of building truss and frame takes place. This opens up unique opportunities to sell products directly into the market, beating every other competitor in the market.

This also sets up a valuable information flow about what work is going to take place where. By tracking tendering activity and modelling that against actual transactions over time, predictive logistics can be introduced to influence forward orders. Effectively Bunnings — and other parts of Wesfarmers — would move one step ahead in the construction order flow.

Again, this repeats some of the post-retail factory basis from the Officeworks example. Provision of a service that generates access to market as well as generating unique data.

The event

The reason HNN has chosen to introduce our coverage of the Strategy Day in this way is that we believe the tensions represented by the need for Wesfarmers to move beyond the retail factory approach were very evident there, especially in the questions by analysts.

In fact, we'll start that coverage with an analyst's question, asked directly after Wesfarmers MD Rob Scott gave his corporate overview. Perhaps not surprisingly, the question came from Mr Errington:

> *Rob, can you elaborate please on your comment where you said you thought the capital efficiency of your businesses is under-appreciated by the market and that you are a CapEx [capital expenditure] light model? Can you go into that please? Because I'm noticing with Bunnings and Kmart, a large part of the growth initiatives are more frontend, like you're leveraging scale or you're expanding your offer, you're relying upon low price every day [EDLP]. Can you go into why you're such a capital light?*
>
> *Because ... when you look at the supermarkets, other retailers, they're really going deep into automated distribution logistics .... On Kmart and Bunnings, you don't seem to focus as much on the productivity side there. You're more focused on the front end. So if you could give us an overall holistic view as to why capital light is an advantage.*

This is a very good question, elegantly posed, and it goes simply, yet with near-surgical precision, to the heart of the matter.

Fortunately, Mr Scott, as he has proved from day one, is that rare MD who is willing to face into good questions, rather than just deflecting them. In his response to Mr Errington's question he sets out to define some of Wesfarmers' core strategies:

Wesfarmers capital

Emma Fisher, Portfolio Manager, Airlie Funds Management, and Rob Scott, MD Wesfarmers

Wesfarmers MD Rob Scott provided an interview with Emma Fisher of Airlie Funds Management. This is an excerpt.

We have some phenomenal business leaders and CEOs running our divisions, and they have the freedom to focus 99%, 98% of their time on being the best they can possibly be, in Bunnings and Kmart [for example], having a shareholder that's prepared to invest for the long term. And [the CEOs] like that.

We've generally adopted the approach in Wesfarmers that capital is unlimited, but what is limited is the number of really good opportunities to invest in. So we don't adopt a capital rationing approach across the divisions. We also don't adopt an approach where you set your capital budget for the year and you spend it or you lose it.

If you look at a lot of companies, I think one of the problems is people think about capital budgets as being something that is locked in stone, and if they don't spend it, they're going to lose it. Whereas the approach you should be taking is this capital going to deliver the right return to shareholders.

So we encourage our divisions to think openly about how can they invest, how can they invest to improve efficiency, strengthen the competitive moats that they have within their business, and also create new revenue streams. And some of those things are initiated by the divisions. Others develop in a more collaborative way.

To view this interviewt go to:
youtu.be/goFQbmrP6Zs

We start off from the perspective that the capital available for our divisions is unlimited. What is limited is the number of opportunities that will deliver long-term value creation. We deliberately, at Wesfarmers, don't undertake a capital rationing approach. So if the division needs capital to invest in long-term value creation, and if it stacks up financially, then that capital will be available.

If you think about the types of investment that are going on in our retail businesses, first of all, our stores are relatively low cost in the Officeworks and Bunnings stores. The warehouse format is an inherently lower cost capital model. And then with the supply chain, yes we are investing significantly in supply chain. For example, Kmart's just gone through the process of opening a new DC in New Zealand. There are a number of other projects going on. Officeworks opened a new one in Melbourne just last year and there'll be more to come.

Mr Scott goes on to point out that supply chain for supermarkets has additional complexities which Wesfarmers retail does not, as it is not handling fresh produce and frozen items. Then he makes an interesting observation about CapEx and OpEx:

If you think about a lot of the investment that Kmart has made in recent years with the RFID tracking within store, a lot of that investment is OpEx related investment rather than CapEx related investment. If you go back 10 years ago, a lot of our investment, 10 to 15 years ago in technology was very much investing in infrastructure. Nowadays the investment is more around software as a service [SaaS], so the costs are flowing through more on the P&L than the balance sheet.

These are insightful and true observations. Yet it is here that we see these two perspectives coming together in an amiable yet serious exchange. The question from Mr Errington's perspective — in HNN's reading of the situation — is that the business of Wesfarmers is largely the investment of capital, and being "capital light" can mean reduced returns. From Mr Scott's perspective, it's better to have uninvested capital than capital invested in unsuitable businesses that don't offer a good risk/reward ratio.

Both are right. But the conclusion has to be that Wesfarmers would benefit from re-gearing its investment processes, as opportunities are not lacking. Yet from the Wesfarmers' perspective this means first re-investing within the company, which is, most likely, the core strategic intent of OneDigital.

At a later stage during the event the question about productivity and optimisation in warehouses does get passed down to the divisional MDs, with Craig Woolford of MST Marquee following up on an earlier question he asked. Ian Bailey, MD of Kmart, answered in part:

On our broader distribution centre plans, our DCs have been around now for quite some time. They are very efficient in the way they operate. They do have automation, it's old school automation called a sorter, but it actually works very well.

What we've done is we've put a lot of work around that process, which is our digital supply chain optimisation that we've been talking about for a few years ,so that we can do a better job of anticipating the demand, shortening lead times and doing a better job of allocating closer to the time that it goes through that facility. We are at the point now we are looking at what a future distribution centre could look like and what the right level of automation is.

I think the question for us is exactly that, what's the right level? So I don't think you'll see us do a fully automated distribution centre. I think it'll be too rigid in terms of the cost and its capacity and for us to be able to run 12 months of the year, we would end up with way too much excess capacity to get the economics to work. Equally, there are now technologies available, which we do not have in our DCs, which will be helpful. And we're in that point, we are really trying to figure out where is the commercial value that will unlock improved efficiencies in the distribution centre and improved efficiencies in store.

Mr Schneider responded directly after Mr Bailey to the same question:

Just on the Bunnings supply chain, it is very different. One, our import DCs bring about 35% of our inventory through into our store networks. That's largely big and big and bulky, so it doesn't naturally lend itself to automation.

The way we sort of think about it is, how can we simplify inbound? So reducing the number of carriers that are bringing product in. Some of the supply chains of our suppliers are incredibly sophisticated. Particularly if you think about paint and green life, the unique nature of those products, you've got to have quite specialised ways of moving that product to minimise shrinkage and loss.

So we don't want to disrupt things that are actually helpful. Clearly a lot of our inventory sits in warehouses owned by our suppliers. That creates other advantages for the business. And if we think about outbound, the testing and learning we're doing at North Laverton, both from a site point of view and a transport management centre, which is tracking and monitoring and giving better feedback to customers on where their delivery is at, are all ways in which we're learning. Then once you prove the concept they can be scaled and scaled in, I'd say, a capital modest way because the facilities aren't particularly sophisticated or expensive, not a lot of technology sitting behind those.

There's nothing wrong with those responses, and they reflect skilful and seasoned management — don't spend money on something whizzbang just because it is whizzbang, when it doesn't deliver tangible, bottomline results.

Yet that is only part of the story. Strategically, what is being said here is that there are large parts of the Wesfarmers retail business that have limited growth prospects, and limited capacity to embrace productivity improvements. At least when it comes to core logistics, they have reached maturity.

This means that further investment into them will increase the amount of return, but it won't cause the rate of return itself to improve. It's flat line rather than exponential. And, arguably, it's that quest for a possible pathway to exponential growth that has led Wesfarmers directly to establishing OneDigital.

OneDigital

In the two thought experiments provided for the data/digital expansions in Officeworks and Bunnings, it should be evident that even starting to think along those lines would be impossible without Mr Scott's move to invest heavily in OneData and the divisional OneDigital. At the Strategy Day event it was clear that analysts wanted to find out exactly what OneData was, and how it intends to operate. OneDigital MD Nicole Sheffield did provide a concise summary of the benefits Wesfarmers anticipates from her division:

> *We are all about the Australian household. Our retail businesses have been serving them for over a hundred plus years, but through our ecosystem, we are able to serve them more frequently, driving more value in any channel they choose to interact with. The cumulative effect of our brands helps us understand these households more, build stronger data knowledge and build even more compelling offers, products and interactions.*
>
> *The ecosystem surrounding this household can create network effects between the Wesfarmers retail brands: Kmart, Bunnings, Target, Catch, Officeworks, and – in time – Priceline. The more our customers shop with these brands, the deeper our understanding of them and through using insights from OneData, Flybuys and OnePass, we can drive new customer missions and profitable growth.*

While this all sounds affirming, it actually does give rise to quite a few questions. For example, what kind of data is getting aggregated? It looks like it is largely transactional data — associated with OnePass discounts. Shopping cart behaviours are tracked (in aggregate), but what about browsing history and onsite product search?

It's also a little difficult to understand what tracking is being used to compare OnePass customers to those outside the program. Those outside the program presumably cannot be tracked effectively cross-site, and aggregates tend to be misleading.

The other core factor at work is that the actual proportion of online transactions throughout Wesfarmers retail (outside of Catch, of course) is relatively low, especially for Bunnings. In the results for FY2022/23 H1 online sales penetration for that half by Bunnings was announced as 1.8%, down from 4.3% in FY2021/22 H1. For that half, Kmart's penetration is listed as 7.3% (down from 14.3%), Target at 17% (down from 26.9%). Officeworks was the highest at 34.5%, down from 46.0% in the comparative half.

Equal value exchange

Nicole Sheffield, managing director, Wesfarmers OneDigital

OneDigital MD Nicole Sheffield was interviewed by Paul Zahra for the ARA Retail Therapy podcast in 2023. This is an excerpt.

When [customers] are on your app, on your website, your mobile experience, or social environment, they're connecting with you. And if you can get them to join a program or do a transaction and basically give you consent, you are going to grow a much larger pool of customers that you can market and communicate to and give products to, than if you went [with] traditional media and bought those audiences.

Because you then don't have consent. With the privacy law changes, I think that's a real "watch-out" for retailers actually. What was a "nice to have" and [could] reduce cost of your marketing ... now I think it's just going to be part of how we do it, how we actually understand our customers and how we ensure that they're getting an equal value exchange out of sharing their data with us.

So I think that's really important that a lot of people [have] oversight [on], they look at the KPIs purely in terms of return on investment. The big opportunity, I think, for data is really in that consent framework, being able to market to those customers and communicate with those customers.

And the third pillar to that is also about, as I said early in the podcast, that operational efficiency because the more you know them, the more that you can actually do that one-to-one and direct versus these mass marketing channels, television, et cetera, et cetera.

To listen to the podcast go to:
www.podbean.com/pu/pbblog-7pwex-b114af

Averaged out with reference to revenues across those four retailers, this comes out to around 10% of transactions online. Including Catch, the percentage for all of Wesfarmers retail is 12.7%. The Australian average for FY2023/24 first half for non-food online purchases, according to the Australian Bureau of Statistics (ABS), was 16.8%.

It's also worth noting that Officeworks is set to join OnePass in FY2024, so the data collected so far is apparently missing in-depth data for over 25% (by revenue including Catch) of the total — though, of course, Flybuys transaction data is available.

The really big hole, however, comes from online marketing, or at least its apparent absence. Online marketing is core to improving online sales performance, but it is unclear how OneDigital would go about leveraging the OnePass data through OneData to boost this. A possibility is that OneDigital might advise Kmart, Target, Officeworks and even Bunnings on what that data suggests, but without having control, and thus completing a feedback loop, this is unlikely to produce great results.

These are all the sort of questions you would expect to be live after only the first year of what will likely prove a very large (and transformative) process at Wesfarmers. Just because those questions exist does not indicate that Ms Sheffield did not fulfil her brief at the Strategy Day. Quite the reverse. What she has done during this event is to ably lay out OneDigital's ambitions and goals. And in the Wesfarmers way, she has clearly staked a claim to some very difficult territory.

Bunnings

The presentation given by Mr Schneider was comprehensive, but also concise, and covered a wide range of activities the retailer has planned for FY2023/24.

Optimise range by store

The Bunnings warehouses might seem vast, but the range is even bigger. In adding new lines to the stores, Bunnings found there were a number of ways they could create more space through better organisation.

In introducing the pet range to Bunnings, it became necessary to find somewhere to put all the products. This led the Bunnings team to discover more compact ways to display merchandise, as well as reshaping what parts of the complete range would be included in each store. According to Mr Schneider:

> *Previously, we tried to accommodate most of our core range in every store. Now through analytics and space optimisation, we can better understand the ranges and categories at each site, adjusting core lines we carry at each store. We can also optimise stock weight and positioning to ensure key items are held in project quantities that are always in stock. This is*

A unique connection

Mike Schneider, managing director, Bunnings

Bunnings MD Mike Schneider was interviewed by Hunter Johnson on the Real STUFF podcast in 2022. This is an excerpt.

I think that the leadership culture I want to have in Bunnings ... is one where we serve other people. So we work hard to have a leadership cohort who check the ego at the door. We're less bothered by title and who can tell someone what to do rather than going and saying, what's the problem that we want to solve and how do we collaborate to do that? I think that that comes to life through the brand. And probably in sort of closing on these remarks, the thing I like most when I say I work at Bunnings is the most regular question I get asked is what store do I work at?

We employ 56,000 people. We've got 500 sites across three different brands, Bunnings and Bunnings Warehouse, we've got Tool Kit Depot and Beaumont Tiles. So to be asked that tells us that there's this really unique connection. People don't see the big organisation, they see their local store. I think what our teams do, living in communities, raising kids in communities, supporting local community organisations, means that there is that connection and it is a really good thing.

I think that humility in the brand informs the way we want to lead at Bunnings and hopefully very few of my leadership group are sort of from the central casting of what you think a senior executive should look like, and rather just are really authentic people who bring their best version of themselves to work every day. And if we can keep driving that, it continues to permeate and keep the culture alive.

To listen to the podcast go to:
player.whooshkaa.com/episode/1035533

achieving greater sales productivity with a couple of examples being pets and fixings.

Expansion in pet range, cleaning and rural supplies

The launch of Bunnings' pet range seems to have been successful:

The launch of our pet range is a great example that's been our most significant category reshape in two decades. We're seeing an excellent response not only from customers, but also suppliers.

Bunnings has also sought to include more leading brands in its cleaning range, while also widening the variety of products available.

Cleaning is another area where we have strengthened our range of authority in response to the elevated and sustained customer demand we saw emerge during the pandemic. We've introduced more market leading brands that consistently attract higher frequency purchases.

It hasn't escaped Bunnings' attention that rural supplies has become a key growth area for hardware retailers.

Bunnings operates in and is a part of many rural communities across Australia and New Zealand, and we're looking at how we can refine and tailor the Bunnings offer in these categories to meet the needs of customers.

Additional own brands

Bunnings has launched another captive brand, CITECO.

Our newest brand, CITECO, is a great example of where our team identified an opportunity in the market to build range authority, and offer customers really attractive price points across ladders, site safety and PPE.

Trade paint

With the trade market ever in its sights, Bunnings is now looking at coming up with a better offer for commercial paint.

For our builders and tradies we see a real opportunity to expand our commercial paint offer as well as others so we can better address the finishing stages of their projects."

Mr Schneider added later:

We're increasingly interested in the commercial paint space. And we'll explore opportunities with paint suppliers across the market to build a credible, trusted and value accretive offer.

Final kilometre delivery by Bunnings staff

Walmart in the US was among the first big box retailers to pioneer staff-based delivery, and it

Bunnings' new own-brand Citeco on display at its latest big-box expansion store in Preston, VIC.

seems that's been picked up as an option by Bunnings, with staff in full floor livery showing up with the goods.

We're piloting our own last mile delivery by having team at selected stores complete same day and next day deliveries as part of their broader store duties. So far, this pilot has been really successful achieving very high customer satisfaction scores at a lower cost to serve than existing last mile options.

The team member trial really is an opportunity, one to create more roles and opportunities for team members to do things. Two, it can be a faster and – certainly from the customer feedback we're getting – more engaged experience. We've got team members turning up in uniform, it's trusted and our ability to recover the cost on that is actually better than it is with existing third parties.

We think it is a differentiated offer and I think as capacity and capability change across last mile fulfilment, it's going to be interesting to explore what an owned capability might look like and whether that can create an advantage for us or not.

Tool Kit Depot

In response to an analyst question about whether TKD would potentially cannibalise (create intra-company competition) sales from Bunnings, Mr Schneider claimed that this isn't happening, with the TKD market differing significantly from the usual Bunnings trade customer.

It's really interesting. Obviously we've got stores where we've got a Bunnings and there's a Total Tools or a Sydney Tools and there may be a Tool Kit Depot. We've introduced Tool Kit Depot into a couple of markets, Queensland and Western Australia where there is no other specialist player ,but there is a Bunnings ,and it's really interesting to see the fact that there is almost no cannibalisation, it's a different customer.

The customer we're looking at with TKD is either a trade that's looking for more specialist tools beyond a range. So if you take Makita, we might have 200 Makita lines, Bunnings warehouse, but a Tool Kit Depot might have 300 because it's got that extended range. And the other customer that is really participating in that is all the "fluoros" [tradespeople who wear fluorescent-striped jackets] that you see in the CBDs doing that construction work. That's a very different customer to the builder customer we're targeting through the warehouse format.

There is an active question about how Bunnings really sees the overall role of TKD in the market. While there may be aspects of expansion involved, there is almost certainly a defensive aspect as well. Reducing the market growth

Top, one of the power tool aisles at Bunnings Preston. Bottom, smarthome display in same store. While Bunnings talks about better integration of smarthome, it remains isolated and oddly displayed. The contrast is striking.

opportunity for participants such as Total Tools by even just 10% could be enough to effectively limit a more direct source of competition to Bunnings main operations.

Growth in commercial

In response to a question from analyst Lisa Deng of Goldman Sachs about how the balance between trade and DIY customers was trending, Mr Schneider explained that the percentage of trade continued to grow.

So commercial is sort of getting close to 40% of our overall revenue. I think the last time we spoke it was sort of 35% to 36% and probably more 37% to 38% now. The margin mix of that is very similar to what we see on the consumer side. We do see a good runway for growth because that pipeline is there. You can sort of see it a little bit more clearly than consumer, because people are signing contracts and doing those projects.

Mr Schneider went on to confirm that the profitability was much the same as for DIY customers, because trade customers were more individual than business purcha sers.

Because of the type of customers. So we are not chasing heavy industrial commercial construction like office towers and things like that. We're talking about small to medium builders and trades and Hire a Hubby, the Jim's franchise group, those sorts of things who are buying across a really broad assortment of products in the store, not just in one or two narrow categories.

Online

With the lowest penetration for online sales of the retailers in the Wesfarmers group, it's natural that an analyst asked about this area. Johannes Faul from Morningstar asked:

We spoke about digital and data earlier, how important it is for the group. Looking at online penetration of Bunnings versus some of the overseas comps, it's fairly low. Do you have a target there, an ambition where you want to draw that to? Or is something structurally different in Australia versus let's say the US where we see higher penetration rates there in online?

Mr Schneider responded:

Yeah, you touched on something really interesting. I think we saw both in the US and Canada online particularly during the pandemic really kick up and then come back. Some of that was about availability and openness of stores and for the large part our stores were open for all customers and in fact for all trades through the pandemic.

!So there was some difference in

Shades of Masters? While Woolworths' failed Masters Home Improvement venture is long-gone, its influence lingers in both Bunnings and Metcash's IHG stores. Here Bunnings is attempting an upscale in its bathroom fixtures in the new Preston store display by using compact vignettes.

customer behavior. I think online peaked at just over 5% sort of 2020, 2021 with Victorian and New Zealand lockdowns it's dropped down to sort of sub 2%, we'll just be very customer led. We've got the tools, we've got the apps, we've got the service propositions that customers can use.

!But as I think I mentioned in my remarks here, we are investing in those activities and events in store, all of which are free. And actually at a time like this, having things like that that people can do with their families we see as real value. So that customer traffic growing is really important for us in store. If they choose to shop online or buy part of their purchase or secure the core part of their project online, that's fantastic. We are there to serve them if they want, but we will let them lead it rather than try and target a certain number.

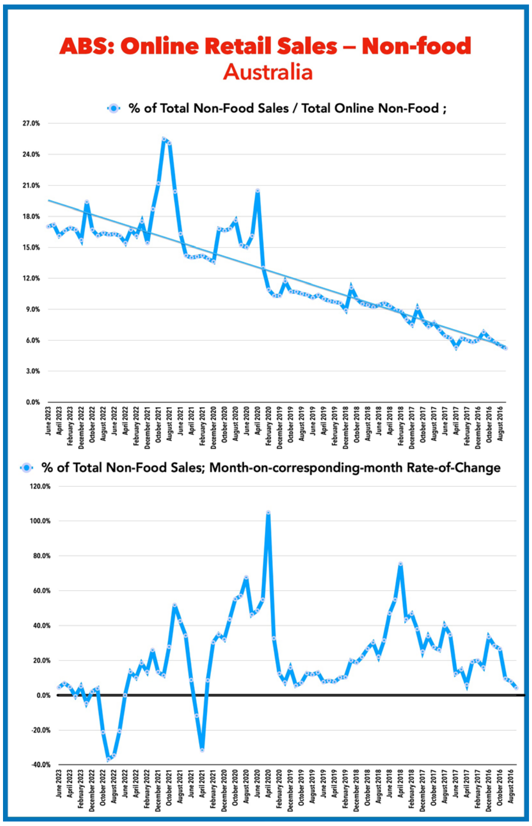
It's unclear exactly which statistics Mr Schneider is referring to in these remarks. In general, similar remarks tend to indicate a conclusion that in terms of sentiment consumers are turning away from online purchases.

Data from the ABS indicates that there is a continued upward trend in the proportion of non-food purchases that are made online. Certainly demand did peak during periods of lockdowns in major east coast cities of Australia, before reverting to lower levels, but the overall upward trend is evident. Data from the National Australia Bank (NAB) and Commonwealth Bank tend to vary from this. It seems likely, however, that the ABS data is the more statistically rigorous.

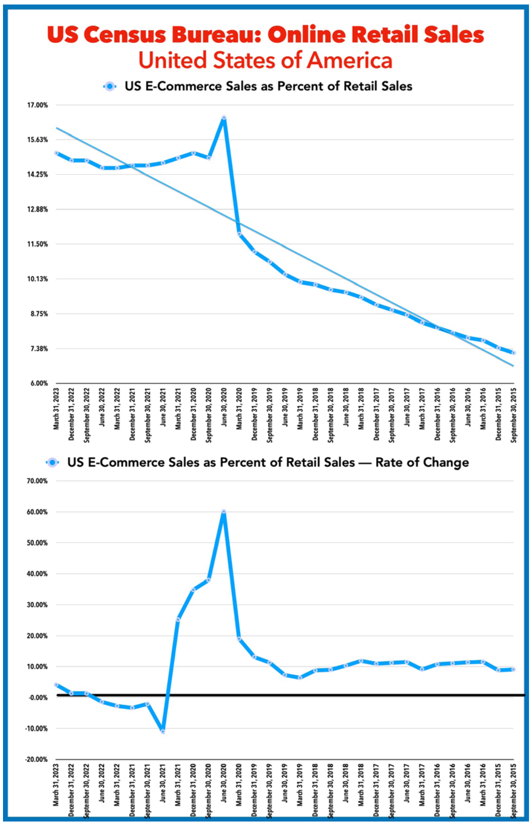
Data from the US Census Bureau indicates similar trends in the US market. Likewise, data directly from US big box home improvement retailer The Home Depot shows that its proportion of online sales went from 14.4% in 2020 to 13.7% in 2021, then rose again to 14.2% in 2022. This means the proportion of its online sales is 7.8 times that of Bunnings.

It would seem to make some statistical sense to see these statistics as reflecting a situation where during the most intense pandemic period, consumer bought what they could most easily buy online, then when that had passed shifted spending for a period those purchases they could not make online, thus producing the fluctuations. It is difficult to see how this pattern could be read as an overall shift in longer-term sentiment.

In terms of Bunnings in particular, the question n the end is whether there is, as Mr Schneider suggest, a singular market, that chooses or doesn't choose to shop online, or if there is instead a secondary, untapped market that natively prefers to shop online, but



ABS stats show that online sales remain healthy in Australia. Growth has certainly slowed post-December 2022, but past gains have not been lost.



US Census Bureau stats show that US online sales are even healthier than those in Australia. Growth has certainly slowed post-December 2022, but past gains have not been lost, though growth has slowed since March quarter 2021.

does not find the Bunnings online experience meets its needs. Global experience generally suggests that the latter is slightly more likely than the former, but it's not possible to be definitive.

Analysis

There has been a general trend among retailers — especially so in hardware retail — to see the increase in online sales during COVID-19 pandemic as a kind of blip on the radar screen of sales forecasts. That's despite the fact that stats show slowing growth, but ongoing elevated levels of online sales.

It is something of a familiar pattern. Those of us in the media business — especially print-based media — can't help but feel a cold shiver up our spines when we hear retailers talking that kind of talk. Because we've heard it all before. The same certainty. The same dismissal of the potential transformations of the digital.

In fact, in Melbourne, we have a lasting monument to what happened with digital and print media. It is frequently glimpsed by visitors to the city after they fly in, as they motor down the Tullamarine Freeway towards the city. About four kilometres from the airport what they see is a curious sculpture that stretches some 32 metres tall. Constructed of glass and steel, it appears to resemble a giant furled newspaper, partially open, pointing towards the sky.

Glancing at this peculiar artefact, most will probably wonder what on earth a sculpture like that has to do with the used car sales lot that occupies the site beneath it.

Twenty years ago this sculpture was the pride and joy of Australia's Fairfax Media, the former publisher of Melbourne's Age, the Sydney Morning Herald (SMH), and the Australian Financial Review (AFR). Originally conceived around 1998, and finally brought to being in early 2002, the sculpture so excited Fairfax that The Age published an entire article devoted to the subject:

> *An integral part of the new project is the 32 metre glass tower – a rolled up newspaper no less – on the site's western corner. Creating a virtual exclamation mark, the tower utilised computer modelling to help achieve a dramatic tension and form. Attached to a steel frame of varying sized ellipses, the tower comprises 542 individually shaped computer modelled glass panels.*

Vision magazine interviews Ken Sowerby (The Age, 2 January 2003)

The plant itself was welcomed to the world in Fairfax's annual report for FY2003:

> *The official ceremony to mark the completion and opening of The Age Print Centre at Tullamarine was a landmark day for the company. With our investment in The Age Print Centre of $220 million over the past four years, we have gone from*

a plant that gave us great service for many years at Spencer Street to a state-of-the-art facility geared to the production of newspapers and magazines of the highest quality for decades to come.

After about 10 years of operations the plant was closed in 2014, and was finally sold in July 2015 to Bobby Zagame, MD of Zagame Group, which owns the Zagame Automotive car dealership, for $16 million.

At the time of the printing plant's construction, for people working in the digital media community, the furled newspaper thrusting into the sky was interpreted by some as being something of a rude gesture: a mammoth middle digit lifted in response to all things digital.

Today, with Fairfax suffering the ultimate disgrace of being absorbed by the Nine Network — a TV company, for goodness sakes — it is instead a mocking reminder of corporate hubris.

As confident as retailers are today that analog retail will remain relevant through to the end of the decade, it's entirely possible that in 2035 some tech company executives will be wandering through an empty building in a northern suburb of Melbourne, trying to work out if they can fit all the servers in their data centre in there, amazed that anyone could have invested so much in a building dedicated to hardware retail.

TWIN TUBES

- OUR ORIGINAL EPOXIES
- BONDING AND GAP FILLING
- MOST VERSATILE

SCAN QR CODE TO WATCH OUR HOW TO VIDEOS!

SCAN ME

SYRINGES

- HIGH STRENGTH, TWO-COMPONENT ADHESIVES
- PRECISE 1-TO-1 RATIO
- EASY AND CONVENIENT TO MIX

SCAN QR CODE TO WATCH OUR HOW TO VIDEOS!

SCAN ME

PUTTY STICKS

- HAND MIXABLE EPOXY PUTTY
- MOULDS TO FIT & SHAPE
- SEALS & FILLS CRACKS & HOLES

SCAN QR CODE TO WATCH OUR HOW TO VIDEOS!

SCAN ME

J-B WELD®

WORLD'S STRONGEST BOND™

www.jbweld.com.au

SCAN TO DOWNLOAD CATALOGUE!

HBT 2023

NATIONAL CONFERENCE

CAIRNS

BOOK NOW!

AUGUST 21—24

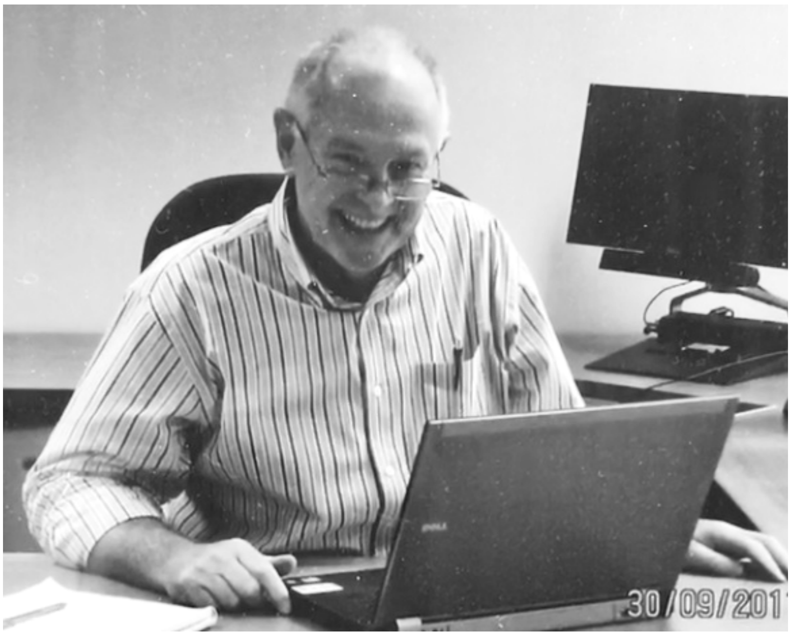
DON'T MISS THIS ONE!

Remembering Graeme Danks

The recent passing of Graeme Danks allows us to reflect on a specific period in the hardware industry's history back when store colours were more orange and teal.

If we were able to look back on some of our own achievements, we might not always have a choice for a narrator of our professional lives once they have reached their end. But for someone like Graeme Danks who served as managing director of Danks Holdings, there are many people who can attest to his achievements. However no-one had a front-row seat for as long as Errol Kennedy, a close colleague and friend.

Errol is a 44-year plus veteran of Danks, a work lifetime that includes an 18-month stint at Independent Hardware Group (IHG) before he retired. From starting out as picker on the floor in 1974, Errol worked in managerial roles across dispatch, warehousing, vendor relations where he was involved in barcoding, and purchasing. He was often with Graeme during those times as well as outside his working life.



Graeme Danks, 2011

The House of Danks

Since its formation in 1859 by brothers John and Samuel Danks – another brother Thomas retired from the business in 1861 – the company grew rapidly, listing in 1951 (Danks Holdings Limited) and expanding its operations to become a top 500 company. The trading company John Danks & Son Pty Ltd, was a wholly owned subsidiary.

Graeme's father, John Danks ("JD") was instrumental in expanding its distribution capacity after a difficult period in which the factories were neglected. According to The House of Danks, a published history of the company:

[Management] were mostly sales and marketing oriented and didn't take much notice of the factories. They had let them run down to the point where it was hardly worth saving them. Worse still, the factories were churning out products for which the demand had diminished. Stock was piling up and money running short, and the overdraft had blown out. Very soon the bank manager was on their doorstep reading the riot act. Danks had twelve months to get their house in order or else they would be out of business.

New distribution and warehousing helped to accommodate for the growth of the Homestead group along with Thrifty-Link (from NSW and QLD) and Home Saver. Homestead and Home Saver eventually merged to become Home Hardware or Home Timber & Hardware. Plants Plus joined in the early 90s.

In 1991, George Richards then-president of what was the Hardware Federation of Australia, referred to John Danks in the following way:

I am delighted to be the person to make this presentation to the first inductee to the HFA Hall of Fame, and I am thrilled that the recipient is Mr John Danks, a real contributor and true champion of our industry.

As a young warehouse manager, Graeme travelled extensively during the early 70s to study the types of modern warehousing that were being used. Computers were introduced at Danks around this time. According to The House of Danks:

This gave the company an online order-entry system for processing merchandise which was probably an industry first.

Under Graeme's management, computers were updated to provide management services and variable retail pricing — among other functions. The computer package offered to its retail members was designed to allow them to devote more of their time to selling.

By 1995, Graeme was appointed managing director with John Danks retaining the position of chairman.

(l-r) Graeme Danks, Milton Vadoulis (Vadoulis Garden Centre) and Con Dekazos in 2013

As a business, Danks always wore "hardware" on its heart because of the independent retailers in the group, and was known for a culture of "sticking to its knitting" that helped it to deliver successive earnings growth.

When Woolworths announced the acquisition of Danks in 2009, it was a distributor and marketer to 583 Home Timber & Hardware, Thrifty-Link Hardware, and Plants Plus stores as well as 939 other retailers.

For Graeme, it meant his family's unbroken 150 years' ownership of the company that bears his name had ended.

About Errol

Errol was part of Danks during a very busy time in its history. He was there when it acquired Hawkes Bros Limited, a hardware wholesaler based in Geelong, VIC and had 110 Pro and Thrifty-Link franchises in Victoria. He said:

We bought the Hawkes business, and we had to move all the stuff from Geelong to Braeside and it basically doubled our business almost overnight. Then we extended the warehouse at Braeside. And I can remember they had their own computer system … and it became obsolete because it wasn't big enough.

Prior to me actually starting with Danks they took over a company called Yenken's. Afterwards they increased their business with the inclusion of Southern Wholesalers which was Hammer Hardware, Hawkes, … Tunstall's which was Hardex Hardware, the Nurseryman's Co Op, which ended up being Plants Plus. It is my understanding that they all approached Danks to take their businesses over so the independent hardware market would survive. Danks didn't go looking for them.

That to me said there's something good about this company. I mentioned this at Graeme's funeral during the eulogy. You got the job at Danks but what he didn't tell you is that you are working with the family, not the company.

Charity

In many ways, the Australian hardware retail industry wouldn't be what it is today without the contributions of the Danks family and the Danks business. From his unique perspective, Errol sees it in the following way:

The Home Hardware Hot Dogs hit the road

The Danks family were extremely generous, not only to customers, but to their staff, and to charity. I'll give you an example. We used to buy forklifts from a company called Linde. They came to me with a brochure that said they were driving an electric forklift from Sydney to Melbourne to raise money for the Salvation Army, and were donating $10,000, and they asked me if Danks would be a sponsor.

So I went up to John Danks in those days, and said this is what Linde is doing and he said, 'Let me have a look at it'. He didn't say yes or no, straightaway. Then a week later, a rep came back and asked if I'd spoken with my manager.

I saw JD, and he said to me, 'Errol, my issue is we've got a charity and we've given the Salvation Army $50,000 already … The rules of the charities are that they can only have one hand-out a year' … And I said I'll go back and tell them we've already donated but also asked him, 'Why don't we tell people about this?' He said, 'Because I believe if I'm giving money away to charity to get a pat on the back then I'm doing it for the wrong reasons'.

That just blew me away.

They also had a fund for their staff that the Danks family or the Danks Trust put money into. It was not run by management. It was run by long-term employees. Towards the end, I was on it. I was a rep for the Danks warehouse.

Errol explained there were representatives on that committee for finance, buying, marketing as well as the accountant, who managed the fund. He continued:

If you were working for me, and I found you had a medical bill that you had trouble paying with or were getting evicted, I would take it to this group, and we'd have a quick meeting to discuss the person and how long they had been with us.

Then we'd ask, 'Who best knows this person?' Then we'd approach the individual on the side, and didn't promise anything, just to find out more information. They might say, 'I've got this $1,500 medical bill and I can't pay for it because I have to pay the rent etc.' And then we might decide that we'd give them the money.

And they would say, 'How do I pay you back?' We'd say that we'll let you know down the track which might be three or four months, and then we'd say, 'Okay, you're going to pay us back at $5 a week'.

And that's how it worked. There were quite a few people that ended up getting it. It wasn't something they advertised. A lot of the managers didn't know about it.

That's what I mean: You work for the family, not the company.

Errol also benefited in a different way as he recounts the story about his son.

I went to Graeme's 40th birthday, and Leanne, my wife was very heavily pregnant. I think she had the baby the next day so that could have been a bit embarrassing! I always remembered Graeme's age because of our son, Jake.

The Hume & Iser store in Bendigo before its conversion to a Mitre 10

I was never one to take sickies. I think when I left, I had just over 200 sick days up my sleeve. But we had an issue with Jake. He might have been five or six. He'd be walking and next thing he'd sort of collapse. We didn't know what was going on and you'd have to pick him up and then he wanted to be carried, that sort of thing. And Leanne said to me, 'We need to take them to the doctor'. So I took the Monday off and we took him to the doctor who didn't know what it was and said we probably need to see a paediatric specialist or one of the surgeons. So we tried to book in and we couldn't get him in for three or four months. And I went to work the next day, and Graeme asked me about the appointment. I mentioned that we couldn't get him into a specialist appointment for at least three months. Then about an hour later, JD came down and said, 'I believe you got a little issue with your son, hopefully he'll be okay'. Then he hands me a piece of paper with a time and date, and said go and see this surgeon at the Royal Children's on Wednesday.

I thought, they're running this massive company and yet they've got time to talk to you about your kids. Obviously he made a phone call and helped me but they were the sort of things that happened that made me think it was a family company.

Jake has grown up to be a carpenter and enjoys playing basketball.

Graeme, the individual

Errol has an easy going way about him, and It's not difficult to imagine him getting along well with Graeme. They were a good fit for a genuine friendship that lasted many years. Errol grew to get past the exterior that Graeme presented to the outside world and see someone who was kind and thoughtful, with a wicked sense of humour. Errol said:

The biggest thing about Graeme was there was no 'Mr. Danks'.

I can remember one of our customers. I won't name him but he said to me that Graeme saved his business. He called in, *and at that stage they had pet food and dog beds, as well as hardware. Graeme said to him, 'You want to get rid of all this rubbish. Put in some new fixtures and just concentrate on what you're good at with hardware and trade'. At first, that customer said, 'We thought, who's this big noter?' But he turned out to be one of our biggest customers. And with Graeme, it wouldn't matter if it was a Home store or a Thrifty-Link, if he was going past he would always call in. And he just had that recall that he could talk with anyone.*

With Graeme, he was very hands on. He wasn't the bloke who sat up at his desk and gave orders. He probably spent half his life in the bloody warehouse! Sometimes I would be trying to get him out, I had to go home to the kids. And he would take it on the chin and laugh, and walk away.

John Danks "passing the baton"

Graeme was very comfortable in the warehouse, perhaps more than any other part of the business. According to Errol:

He always wanted to know what was going on. He would pretty much come down to the warehouse, first thing on most days.

In fact, Graeme's affinity with the more technical, logistical elements of running a hardware business was not that well known outside of Danks. Errol said:

He knew how to put a warehouse together. He knew how to run it. There was no use in telling him, 'We're not going to finish'. He would pump you up and say, 'How much are you gonna get done?' I'll say 30,000 or 40,000. Then he'd ask, 'How are you going to get the other 10,000 done?' He always asked the right questions, but he let you run it. He had confidence that you would do it.

For Errol, Graeme was much more than his boss and it wasn't all about work.

I travelled with him a little bit to Sydney, and Graeme was one of those people that if the flight leaves at five o'clock, we would leave the warehouse at 4.30. And I say to him, 'We've got to drop the car Graeme, put our bags in, and the plane would be going down the runway and we'd be standing on the wing and knocking on the door, trying to get in! (Laughs)

I used to say to him there's really nothing wrong with getting there, getting your ticket and sitting down and having a drink or a coffee…

I said on the day of his funeral that I'd known him just short of 50 years. I kept in touch with him. You know, we used to have phone conversations. The day he retired, I jokingly walked up to him and said, 'I can't stand these people who can't stay at a company that long. I said I'm only going to stay at Danks so I can beat your record of 43 years, or whatever it was. When

I got to the 44, I rang him and told him I was retiring. He said to me, 'I'm taking in the time when I used to go in after school!' So you could always have a joke with him.

If he rang you, the first conversation would be 'How's your wife?' He'd ask about the kids before he asked about anything else. He would always ask me about the family … But it was so hard when he told me about the cancer.

I used to ring him every two or three months, and joke that it's your turn for coffee this time. And I rang this day because I hadn't heard from him for a little while. And he said, 'Can I ring you back?'

(l-r) Don Stallings (Masters Home Improvement), Graeme Danks and Michael Luscombe (Woolworths). Mr Luscombe died in 2018.

And he rang me back about two hours later, he had his wife Jenny in the background with him. And he said, 'I'm glad you rang because I've been trying to work out how I can get on the phone and say, 'Hey, I've got cancer'. He said, 'You've broken the ice by ringing. I just want to let you know that. I've been diagnosed with pancreatic cancer'.

And it just shook the hell out of me. I couldn't believe it. And all through it, he was strong. And as the kids said, he was still joking at the end.

It was just one of those things. I tend to text him just after Christmas. And I didn't realise he had gotten that bad. And I sent a text that said, 'Righto, it's your turn, where are we going to have coffee, you name the time, the day, the place and I'll meet you there. And it's my shout'. And he never replied. Then probably two weeks later, he sent one that said we must catch up … but we never did.

Speaking to Errol has given me, as publisher of HNN, a different perspective on Graeme. I had a professional connection to him as a journalist and editor while he was still managing director at Danks. I can't say that I got to know him very well back then but putting together this story makes me feel as though I got to know a little more about another side of Graeme. For that, I will always be thankful.

This story would not have happened without Con Dekazos making the connection between Betty Tanddo and Errol Kennedy.

Thank you to Errol Kennedy, Con Dekazos and the Danks family.

Additional sources: AAP Finance News Wire, The House of Danks and The Age

HBT 2023 NATIONAL CONFERENCE CAIRNS 21ST – 24TH OF AUGUST

3 reasons why you really should come to Cairns

21—24 August

1. Cairns: the city

2. the conference

3. members & mates

HBT 2023 NATIONAL CONFERENCE

BOOK NOW!

AUGUST 21—24

DON'T MISS THIS ONE!

DIGITAL IS THE FUTURE OF MARKETING

YOU NEED TO FUTURE PROOF YOUR BUSINESS.

Still relying on print? Consider this: how much time do your customers spend using their mobile phone and computer? And how much time do they spend reading magazines? Which matters more to them?

DIGITAL is all about performance and engagement. **DIGITAL** readers opt-in to receive your message — they're not just another address on a mailing list.

DIGITAL doesn't just earn attention, it measures it as well. No other media has the equivalent of downloads, which directly show reader engagement.

And **DIGITAL** is also less expensive, simpler and more flexible.

To make the move to **DIGITAL**, just call HI News on **0411 431 832**, or email Betty Tanddo on **betty@hnn.bz**. The future looks great, believe us.