



# SOLID FOUNDATIONS

The news is full of talk of slow-downs, building company collapses, and a reduction in construction work. So why is the hardware sector talking expansion and growth?



**Left** The Hamptons ITM store in Christchurch is just one of a co-operative of local operators with 81 stores around the country.

**Right** Carters, owned by Carter Holt Harveys, has a strong trade emphasis.

**S**can the headlines and you'd get the idea that this is a bad time to be in hardware. But despite talk of a slow winter and tight finance, hardware retailers are finding growth, filling order books and planning their own expansion.

Official statistics measure the number and value of building consents issued. Taken at face value, there has been a considerable drop in building work this winter. The value of building consents issued in June 2008 was \$768 million. This is 28 per cent (and \$305 million) less than the consents issued in June 2007. Viewed annually, though, the difference was just a 1.4 per cent drop. Non-residential work has actually increased over the year to June.

The other official measure of construction work is a quarterly sampling of the "Value of building work put in place". The March 2008 quarter was the latest set available at the time of writing. It showed a slight decrease over the previous quarter, but the long-term trend, adjusted for inflation, showed building work hasn't boomed or busted. Rather, it shows that building work has been relatively constant since early 2004.

The hardware sector is a unique combination of retailing and wholesaling and so contributes to two more sets of official numbers. Looking at the

wholesale side of the sector, sales of builders' supplies were up by 3.7 per cent in the March 2008 quarter when compared with the same quarter in 2007. Stocks held were up by 12.9 per cent on the March 2007 quarter, consistent with stock reserves over the previous year.

On the retail side of the business, hardware sales for June 2008 were down by 6.3 per cent on June 2007 – when core retailing (excluding cars and petrol) was up by one per cent. As with wholesaling, there is no obvious change in the stocks held that suggests shelves are over-full or orders are being cancelled.

Looking at the numbers overall, the hardware and building supplies sector has experienced a four-year boom and there are pockets that are continuing to grow, most obviously non-residential building. The stats do show a sharp drop over this winter, but with no evidence yet that this represents a long-term trend.

Sector veteran Paul Dolheguy says the official reliance on building permit data hides the value of smaller projects and maintenance. Dolheguy co-owns Builders Hardware in Christchurch, a long-serving trade supplier that is preparing to rebrand as a PlaceMakers outlet. He says there is steady business in smaller projects that don't need a building permit or don't attract the

attention of business analysts. "There is always work going on with new kitchens or new bathrooms or painting. It's constant. We've always specialised in looking after the small-to-medium builder. We see that market is still relatively strong and always has been, but it's been overshadowed by the hype built up around bigger housing developments and the investment market."

### BIGGER IS BETTER

Certainly the industry is confident that long-term growth will continue. In July, Bunnings announced an expansion phase that will make 500 new jobs and cost \$90 million. Its announcement included six new stores, although these include relocations of smaller stores.

This reflects a wider trend among hardware retailers to grow by expanding floor area rather than by opening new businesses. While most chains have opened a few new stores in the past year, it is enlargement – especially shifting to large formats – that is driving growth.

The biggest stores are now about 10,000m<sup>2</sup> with drive-through loading bays, garden centres, cafés, and play areas (for kids, not for Dads). The large-format stores that specialise in retail sales, such as Bunnings and Mitre10 Mega, can stock about 40,000 SKUs – comparable to a supermarket. This requires modern stock control systems,

including the ability to deliver larger items directly from suppliers.

Mitre10 marketing general manager Sandra Geange says targeting a retail market (rather than tradespeople) makes a wide range essential. "We pride ourselves on stocking the widest range. We have an enviable situation where we get a benefit from growth in large building projects, and get a benefit when people choose to do it themselves. We've found that people are now more interested in renovating their existing home rather than building a new home. With the economic situation, there's been a shift to more energy-efficient products such as insulation. There's also been a big growth in garden products, particularly trends like growing your own vegetables. We tend to be fortunate that we can grow with new home sales and with renovation."

### MINIMISING RISK

The well-publicised failure of some large property developments and various finance companies hasn't left hardware retailers untouched.

ITM has a strong trade focus, and chief executive Gordon Buswell says it is taking care to reduce exposure to risk. "The industry is always wary of bad debts. We are not exposed directly to investment companies. Stores servicing larger developers will have



**Above** Mitre 10 operates under three brands – Mitre 10, Mitre 10 Mega and Hammer Hardware.  
**Right** Bunnings warehouse stores are home-handyman's dream, with every type of power tool imaginable to choose from.



Bunnings is an Australian owned chain that now has 16 Bunnings Warehouses and 25 smaller stores in New Zealand.

problems as the developers' source of funds dries up. We have a small exposure in this area but these are not our primary market."

"The best way of managing this risk is to deal with tried and true customers. It is important to be wary of new customers coming across from our competitors, as these can be credit refugees that have exceeded their credit terms with others. Credit watch groups are critical, as is Creditworks – an industry real-time, trial balance with real-time default and 'stop credit' reporting."

Mitre10 is also conscious of the risk. "Like any company with a debtors' book, we need to minimise risk through credit checks, and we've had a real focus on overdue payments' management. Any really large exposures can be insured against, but really, we are insulated against that to some extent by the fact we are predominantly retail," says Sandra Geange.

## BUILDING THE FUTURE

Gordon Buswell sees some slowing in the short term, but adds that growth

is still evident in the right places. "In general there will be less business done next year. Some of our stores will grow but in the main sales will be reduced. Product range extensions and new initiatives in the merchandising and store co-ordination areas are expected to limit the impact of the general downturn. Our sales have been remarkably resilient to date, but there are definitely signs of new house construction slowing – especially in the main centres. The South Island outside of Christchurch is maintaining momentum."

Buswell also picks a trend for large-format stores in slower economic times. "I believe we will see a broadening in the product range which may see a blurring of offer between the hardware chains and the general merchandise companies like The Warehouse and Briscoes. In some areas we may see some subletting of store space to have stock positions match sales."

Sandra Geange also notices the effect of South Island dairy conversions. "We've opened a couple of great new rural stores recently. The one in Kaikoura is going extremely well."

Paul Dolheguy can confirm the growth. "Since 2000 the three trends that have grown our market have been investment from overseas absentee homeowners, especially since September 11. Dairy conversions are still very strong and are bringing new people and homes – and tourism, with lots of upgrading in hotels and motels. I think there is always room for growth. It comes down to basic common denominators. They're not making any more land and we have shortage of fuel, so there will be a swing towards redevelopment in the (Christchurch) city area."

"Even in hard-core building products you do get seasonal changes. It's hard to start at seven in the morning in the South Island in winter. Things will pull away in spring – we've already got the orders coming in now."

Sandra Geange says the group is also expecting growth, both organic and through taking more market share. "We believe there's still lots of opportunity in the New Zealand market and it still hasn't reached any sort of saturation point. We feel that if we can satisfy our customers' wants we can continue to

grow the market and grow our own market share."

Growing the market includes educating and encouraging customers. Trade suppliers talk about the constant introduction of new products – requiring education for builders and designers. Retailers are also busy inspiring and educating customers 'to do it themselves', or finding a tradesman who can do it for them.

"We are keen to keep DIY alive and kicking in New Zealand," says Sandra Geange. "How-to education is important. Teaching them, helping them, giving them knowledge is one of the most important things for our consumers and we have to be able to provide that. The younger people these days aren't coming through with the same DIY skills as their parents or grandparents, so we are definitely having to focus on the basics. Older people are looking for someone to do it for them, and that's definitely a growing area in the States and UK." ■

By **Martin Craig**, Wellington writer and regular NZRetail contributor who doesn't own a hammer.

# WHO'S WHO IN HARDWARE

There are four major groups in New Zealand's hardware sector. They are either co-operative groups of local operators or owned by major building product manufacturers. One, PlaceMakers, is a combination of both business models.

**Mitre10** is a co-operative that operates under three brands – Mitre10 Mega, with 22 large-format stores, Mitre10 with 88 medium-format outlets, and Hammer Hardware with 71 smaller stores in suburban and smaller centres. The Mitre10 group is a co-operative, with stores under local ownership and a national support centre in North Shore. Mitre10's business is dominated by retail sales.

**ITM** is also a co-operative of local operators with 81 stores around the country. ITM stores cover a range of sizes to suit the local market and are not split into different format brands. ITM's sales are dominated by sales to the building industry.

**Bunnings** is an Australian chain owned by Wesfarmers, a large conglomerate of retail and primary production businesses. Bunnings introduced large-format hardware retailing to New Zealand in 2001 with Bunnings Warehouse. There are about 200 Bunnings outlets in Australia and the local chain has 16 Bunnings Warehouses and 25 smaller Bunnings stores. Wesfarmers is Australia's largest retail group and includes Coles, Kmart, Target and Lockwood.

**Carters** has 54 stores across New Zealand with a strong trade emphasis. Carters is owned by Carter Holt Harvey, which produces wood products including MDF, plywood and timber framing.

**PlaceMakers** is a joint venture between local operators and Fletcher Distribution, which is the retail arm of Fletcher Building. PlaceMakers has 62 stores, with about 80 per cent of business coming from the building trade. Fletcher Building's businesses include Laminex, Firth, Golden Bay Cement, and Winstone Wallboards and Aggregates.

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