

English translation of Gerry Murphy interview with French trade magazine 'Rayons BJ'
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RBJ : Can you explain Kingfisher's strategy in France for each chain. Sometimes people can think that Castorama is a kind of competitor of Brico Depot (regarding price for instance)

Gerry Murphy: Kingfisher is using a twin-track strategy to grow its total market share in France using its two chains; Castorama and Brico Dépôt. Both are distinct formats with quite different customer propositions. Castorama is a broadly-based, mass-market home improvement retailer, with large stores stocking a wide range of products. These include a strong range of decorative products and, of course, garden centres, which are one of Castorama's great strengths.

Brico Dépôt is aimed at the serious DIY enthusiast, or professional tradesman. It operates smaller stores with a narrower range, and with a heavy emphasis on building trade and renovation markets. It concentrates on stocking large volumes of essential products and tools at the most competitive prices. But, unlike Castorama, there are no garden centres and a limited range of decorative items. So, as you can see, the two are quite different. Still, each one keeps a close watch to pricing and handles it with real success.

RBJ : Some Castorama employees are concerned. They are afraid that many of the outlets will become Brico Dépôt and they hear rumours about a purchase of the rest of Castorama. What can you say in order to reassure them ?

Kingfisher has invested heavily in the Castorama revitalisation programme over the past three years, totally transforming 24 of the 102 stores with more to come in 2006. This programme is very successful and for the first time in many years, Castorama opened stores in two new markets in 2005. You don't do that if you are not committed to something or convinced of the brand's future.

It is true that some Castorama stores have been converted to the Brico Dépôt format, and we have announced plans for a further six conversions. But these are mainly smaller, older stores, which would not be suitable for conversion to the new Castorama format. As part of Kingfisher, colleagues in these stores can have a very successful future with Brico Dépôt. We are confident that Castorama has a very bright future, as the most recent financial results show.

RBJ : During a press conference in 2002, after buying Castorama France, Sir Geoff Mulcahy was very « tough » with Castorama's results comparing them to Leroy Merlin's results. Now, are you more satisfied than Sir Geoff with Castorama ?

I am very pleased with Castorama's progress. Since 2002, Castorama has been transforming its product ranges, its stores and its prices, helped by being part of Kingfisher's Group buying programmes. During that period, sales and profits have risen significantly. And Castorama's price perception ranking among consumers has improved from 9th to 3rd, according to INFORCO.

Kingfisher's most recent results, for the third quarter, which were published at the end of November, showed that Castorama grew sales by 5% (outperforming the market) and profits by

14%. Earlier this year, Castorama introduced over 6,000 new product lines, including new ranges of contemporary decorative showers and kitchens. The stores which have been converted to the new, modern format are performing very well.

RBJ : Everybody enjoys the new concept of Castorama. But what about the results of these new kind of shops. Are you really satisfied with them ?

Absolutely. The performance is improving all the time and I believe some of the most recent Castorama stores, at Englos, near Lille, and Toulon La Garde, are amongst the best DIY stores anywhere in the world. They are a real credit to the Castorama team under Philippe Tible and we are very proud of them.

RBJ : Brico Depot is more than a simple DIY retailer. In France it is a real phenomenon. Did you expect something like that, as strong as it is ? What is the secret of this success ?

As you say, Brico Dépôt is a phenomenon, a fantastic business. I think Brico Dépôt was maybe a "hidden gem" within Kingfisher a few years ago, but now people are starting to take more notice of it. What are the secrets of its success? It stays true to a very clear, simple, but effective business model. It is a low cost operation with simple stores which concentrate on being in stock, in volume and with the best possible prices. Indeed it is well known in the market for its low price policy. Brico Depot's management and its terrific store staff have stayed true to those values, thanks to the excellent leadership of its Chief Executive Patrick Langlade.

RBJ : Can you explain what Trade Depot is and the difference with Brico Depot ?

Trade Depot is a new UK format aimed solely at the trade buyer. Its main targets are the small builder and trade professional, such as plumbers, electricians and so on. It stocks around 8,000 product lines compared with about 15,000 in a Brico Dépôt. So it is a different concept, although the UK team has learned a great deal from their colleagues in France. Its values - "Simple, Honest, Local" are based on those of Brico Dépôt and it has shared some suppliers. One of Trade Depot's buyers has also joined from Brico Dépôt. One of the differences is the locations. Because UK retail property prices are so high, we could not open Trade Depot branches in standard shopping areas as rents are three times higher than on industrial estates. That is why Trade Depot is targeting mainly industrial locations which are already familiar to its professional customers.

RBJ : How do you imagine market share in the future between DIY retailers and professional stores. Can we imagine common stores for craftsmen and private individuals ?

Brico Dépôt already fulfils the function of aiming at both tradesmen and heavy DIY consumers. But Castorama will remain focused on consumers generally. The professional and consumer markets are different today and will remain different. Over time, we believe both markets will move regularly with consistency.

RBJ : Increase of turnover in countries like France, now, is a real challenge. Can you imagine other ways or concepts, smaller, in the heart of cities to succeed in the future ?

Our principal focus will continue to be on larger format "GSB" stores. Kingfisher is successfully growing its market share in France with Castorama and Brico Dépôt as our latest figures show. Kingfisher's like-for-like sales in France grew by 6% in the three months to October. And, don't forget that Brico Dépôt still only has 70 stores in France and is not yet represented in many French cities. So there is plenty of room for expansion.

RBJ : We can say that the Mulliez Family has shown its interest in the gardening market with participation in Jardiland. What do you think about that ? Can we imagine Kingfisher taking the same way ?

I can't comment on other people's businesses. But Castorama is already well-represented in this area as it has excellent garden centres.

RBJ : A lot of DIY retail workers read our magazine. What can you say to excite them about working for Castorama or Brico Depot ?

I would have thought the attractions are obvious! Both Castorama and Brico Dépôt are large, successful and growing businesses. And, as part of Kingfisher, our French colleagues are working for the largest home improvement retailer in Europe and the third largest in the world. As well as France, Castorama operates in Poland, Italy, and from next year, Russia. Brico Dépôt has expanded into Spain. We have many staff that have moved from one country to another, including French colleagues in Kingfisher's businesses in the UK, Spain, Italy, Poland, Russia, China and Hong Kong.

RBJ : Who is your most dangerous competitor today in France ? St Gobain Group (Point P..) or Mulliez Group ?

We respect all our competitors but we don't comment on them individually. We are 100% focused on running our businesses.

International

RBJ : Do you agree with the notion of a new European DIY consumer which could allow to make mass-purchasing ?

We tend to subscribe to the view that you have to think global and act local. As a major home improvement retailer operating in 10 countries, we recognise that styles and tastes vary from country to country, and even within a country in some cases. So we have to offer customers in each country what they want. But there are obviously some product areas where you can operate combined sourcing and Kingfisher has been doing just that for several years now under our Strategic Supplier Management Programme. In areas like paint, power tools and adhesives and sealants, Kingfisher is increasingly looking to develop close, strategic supplier partnerships with

key vendors so that we can ensure more innovative, exclusive products at the best possible prices. We are also looking to import more goods directly from factories rather than through agents or other middle-men. This reduces costs which we can pass on to customers in the form of lower prices.

RBJ : Kingfisher and B&Q speak about Russia and say it's a kind of BIY country (buy it yourself). Can you explain this ?

What we mean by this is that in Russia there is only a limited tradition of DIY as homes were owned by the state which also looked after repairs and maintenance. So in Russia, the market will be more based on people buying home improvement products, and then possibly hiring a professional to do the work. The DIY part of the market will grow as consumers gain in confidence and take on projects in their homes. But our Castorama stores in Russia will need to offer a higher level of advice and shoppers will be looking for guidance.

RBJ : What about other specificities in other countries, like China for example ?

China is also more of a BIY or CIY (Choose it Yourself) market for similar reasons as Russia. In China we have more staff on the shop floor than in other markets as people want advice. We also operate a very successful home decoration service to handle the complete fit-out of new apartments. In China, many of the new apartments being built are sold as empty concrete shells, with no kitchen units, bathroom fittings, flooring or paint on the walls. At B&Q, they can come to the store and select everything they want and we will then handle the full installation and decorating for them. We will often have the planogram of their exact apartment on our computers as we have relationships with developers. B&Q China fitted out over 10,000 apartments in this way last year.

RBJ : Still about China... Western retailers have problems in this country. Is it the same with B&Q ? What are your challenges and target objectives in China ?

It is obviously a very different market. Consumers are different, their homes are different, their tastes are different. As a Western retailer, you have to adapt to these things. B&Q has the benefit of having been operating in China for six years now so we have had the chance to learn a great deal. We have also made sure we have a largely local management team, run by B&Q China President David Wei. In fact, of over 9,000 employees in China, only six or seven are expatriates. This is absolutely vital as local management understand their market much better. There are other legal, regulatory and property differences which you need to adapt to. You also need local partners to help you.

RBJ : Where else can we imagine Kingfisher growing in the world ?

We have set up a team in Russia and expect to open our first stores next year, in Moscow, St Petersburg and a provincial city. And we opened our first B&Q Home store in South Korea in June. Those are the new markets for us.

BJ : What is the most important stake for Kingfisher in the future ? Logistics, purchases, or service ?

Like all retailers, the key thing for us is to serve our customers. We need to make sure we give them the right products, at the right price, in good stores, with good service. All our focus is on those things.

Question Tabou

BJ : In June , everybody talked about first steps of Home Depot in Europe, by buying Kingfisher. Did you meet Mr Nardelli in 2005 ? And what was the purpose of your meeting ?

We have good, friendly relations with both Home Depot and Lowes and we meet both companies from time to time in the US, Europe and Asia. As we don't compete directly, we can discuss freely trends in our markets and developments in our businesses.

BJ :What's the percentage of purchases in China for Kingfisher ?

Direct imports from China account for around 8% of the total cost of goods sold

BJ :You were Carlton Communication's chief executive. It is not the same world as DIY. What kind of things in your past in the communications market helps you today?

The first 25 years of my career were spent in public companies in food and drink (Diageo and Greencore), logistics (Exel) and commercial television (Carlton/ITV). I think that I understood very well the principles of leading a large, international public company whose first objective is to satisfy its customers around the world. My biggest customers in my career before Kingfisher were retailers!

BJ :Three years at Kingfisher. I think you are not really the same Gerry Murphy. What did you learn about this market ?

I have learned a great deal in the last three years and I hope to learn more in the next three! The most important thing I have learned in retail is to try to "keep it simple". Our business can become very complex and the key to avoiding this is to always ask "Why are we doing this?" and "What does it do for our customers?". Everything we do must start and finish with our customers.

BJ : What kind of Diy-er are you ?

Personally, I will try my hand, not always successfully, at most repair jobs and I can do basic mechanical, electrical, plumbing and decorative work. I also like "heavier" gardening work because its good exercise and I like being outside. These days, I tend to leave the big projects to the pros!