WINNER: ANZAM CASE WRITING COMPETITION – 2018

Bunnings New Zealand: Time to think outside the (Big) Box?

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CASE ABSTRACT

The All Blacks are synonymous with New Zealand, but in 2017 more Kiwis aged 25 to 54 chose to watch the finale of the property renovation reality show *The Block NZ* than the final test in the All Blacks vs British and Irish Lions series, making it the most watched television event of the year.[1] Kiwis had a national obsession with renovating properties driven by a long-term booming market; the value of the national housing stock had skyrocketed from NZ$620bn in March 2012 to NZ$1051bn in September 2017.[2] One beneficiary of this had been Bunnings, the home improvement retailer, which had entered the New Zealand market in 2001 and grown rapidly to become a key player in the industry. The last seven years of this growth had been overseen by General Manager (GM) Jacqui Coombes.

However, as Jacqui handed on the role to incoming GM Toby Lawrence in late 2017, she wondered whether continuing to grow in the same way would lead to new challenges. Whilst the trademark big- box format Bunnings stores had been an innovation in the market and driven rapid expansion, both customer behaviour and technology were changing rapidly. Jacqui wondered what steps Bunnings might need to take to maintain competitive advantage and ensure continued growth in the future.

CASE

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BUNNINGS NEW ZEALAND

Bunnings was acquired by the Wesfarmers Group in 1994. Initial entry into the New Zealand market came with the purchase of 35 local stores in Auckland, rebranded as Bunnings.[3] Existing competitors tended to be small format stores, but Bunnings introduced the first big-box store into the market place, growing to 28 large format stores throughout New Zealand in 2018. The larger format stores included garden centres, cafes, outdoor furniture and BBQs, and facilities for families such as nurseries, greatly broadening the appeal of what had been a male dominated sector. Whilst Bunnings' main focus was on growing big-box stores, in early 2018 Bunnings opened a new smaller format store in the South Island and a large store customised for urban areas in central Auckland.

As a subsidiary of Wesfarmers and part of the Bunnings Australia and New Zealand group, Bunnings had some differences to local competitors, none of which were multinational, and some of which were structured as cooperatives (Mitre 10 and ITM for example.) Bunnings operated a common pricing strategy across all its stores with a guarantee to beat competitors' prices by 15%, whilst local firms often had store-based pricing. As part of Wesfarmers, Bunnings had access to group economies of scale and scope, and exclusive deals with major suppliers, such as Techtronic Industries Australia and their Ryobi brand (which had a 50% share of the power tool market in Australia) and used contract manufacturers to supply its own brands, such as Matador BBQs.

THE NZ HOME IMPROVEMENT MARKET

Bunnings serviced two main customer segments: consumer retail and trade (Figure 1). Whilst retail consumers browsed the aisles in the main stores, the trade market was catered for by separate Trade Centres.

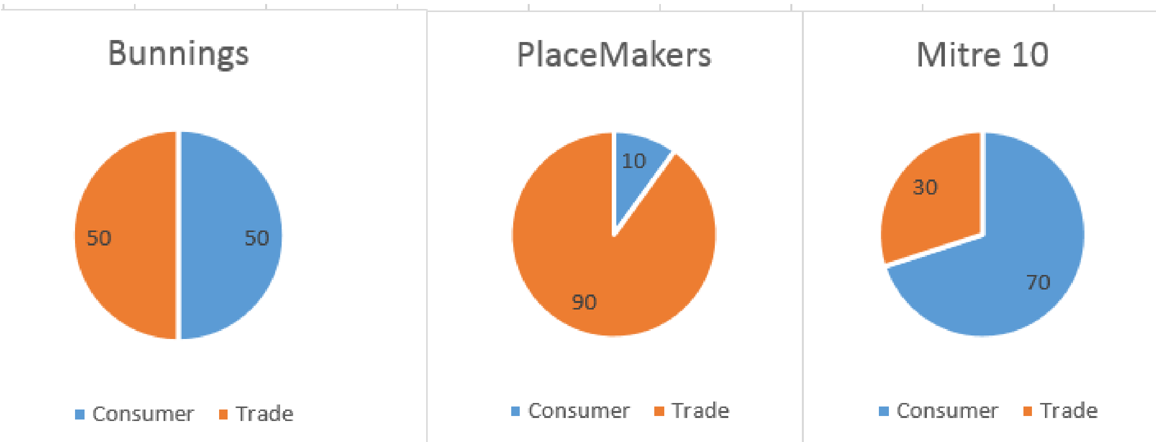

Figure 1: Consumer and trade (including light commercial and heavy construction as percentage of top-line sales for the FY ending 30 June 2017). Source: data derived from Bohling (2018) [4]

Bunnings competed with direct rivals such as Mitre 10 Mega, who also moved to big box formats, as well as specialist retailers. Figure 1 above shows Bunnings' key competitors and respective customer segments. At the end of 2017 most sales still came through the traditional channel of bricks and mortar stores - for example in Australia 93% of all home improvement domestic purchases were through home improvement sector stores rather than general retailers, and 97% of those were from physical stores.[5]

Figure 2 depicts the primary competitors in the New Zealand market, and their positioning between trade and consumer markets, and table 1 the leading market shares.

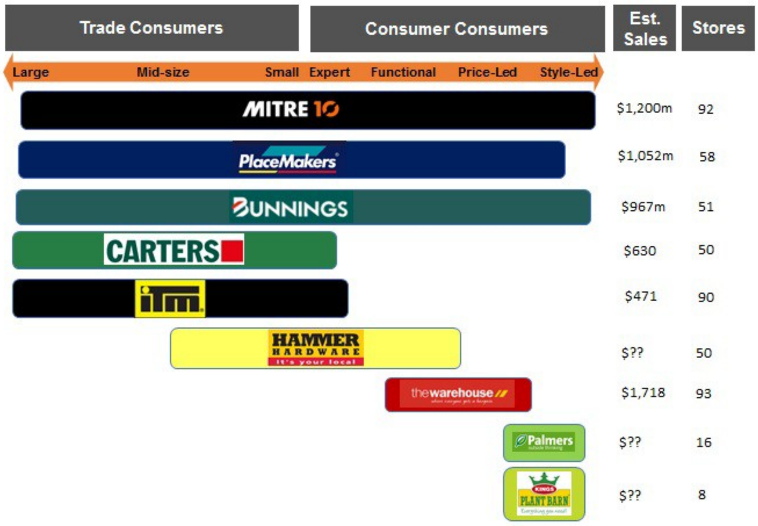

Figure 2: Primary competitors in NZ Home Improvement. Source: Bunnings

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Bunnings	12	12	13	14	14	15	14	15	15
Mitre 10	19	18	17	18	18	18	18	19	18
Placemakers	21	19	19	18	17	18	18	17	17

Table 1: Home improvement sector sales, market share percentage (source: Bunnings)

SHIFT TO ONLINE SALES AND SERVICE

The DIY sector was generally slow to move to online sales in New Zealand and Australia, and competitors focused towards trade were slow to build an online presence beyond a simple website. Additionally, the trade sector in New Zealand had a long held face-to-face culture, with tradespeople viewing the trip to the store as not only a purchasing activity, but an opportunity to network and learn about new products.

Increasingly busy consumer lifestyles, as well as generational and cultural shifts, were leading increased online sales across all sectors. For many immigrants, concentrated in urban areas, DIY was not seen as part of their culture. Many millennials also shunned DIY, and as a result there was a shift towards "do- it-for-me" services mediated through mobile apps. Airtasker, for example, is an app which connects users in Australia who need small tasks done, with “workers” who want to complete tasks such as painting and home repairs.”[6] General and online orientated retailers were moving to cater to these consumers globally. Tapping into personalisation trends, Ikea launched an augmented reality app in 2017 offering consumers the ability to see what home furnishing products would look like in their own homes. Whilst brick and mortar stores have embraced online ordering and collection (click and mortar), some crowdfunded new entrants in Europe are pure play (online only) start-ups, offering niche products such as mattresses for example, with the ability to offer pop-up stores and alliances with bricks and mortar retailers[7].

From a late start, Mitre 10 recently began expanding its online presence, and in 2017 recorded 48% growth in online sales.[8] Mitre 10 chief executive Neil Cowie considered that omnichannel retail appealed strongly to both retail and trade customers because purchasing online offered the freedom to access inspiration, advice and price comparisons 24/7. He argued that shoppers “do their homework” online then visit their local bricks and mortar store to view products in the showroom and access advice from staff.[9] The company also was moving to increase trade sales online with investments in the Mitre 10 Trade Hub. In late 2017, Bunnings was also starting to employ mobile apps to facilitate online sales to trade customers.

Bunnings was slower to move towards online in the retail consumer segment, with a longstanding belief within the Bunnings Australia and New Zealand group that the large proportion of customers still preferred to shop in-store. In addition to price, the company had focused on customer experience, offering in store pop-up demonstrations, DIY clinics and events such as ‘lady’s night’ to build customer loyalty. However, in an announcement the same week that Amazon launched in Australia, Bunnings Australia announced that from 2018 a limited range of ‘special orders’ products would be sold online.

LOOKING TO THE FUTURE FOR BUNNINGS NZ

In late 2017 the Amazon group started trading in Australia, and speculation was rife as to whether New Zealand would be next. Analysts Morgan Stanley said they expected Amazon to grab as much as a 5.6 per cent slice of the hardware sector in Australia.[10] Ikea, which had long held land in strategic locations in New Zealand, was also rumoured to be considering possibilities for entry, maybe using smaller-scale more flexible stores which could sell products shipped on demand from Australia or Singapore.[11] Having enjoyed spectacular growth based on a rising market and delivering a compelling customer experience, Bunnings was currently in a strong position. But in the face of changing trends how could it continue to grow? Jacqui wondered - was it time to think outside the (big) box?

TEACHING NOTE

The case can be used with undergraduate/MBA/Professional Masters business strategy, entrepreneurship, eBusiness, marketing, or management classes. The case lends itself to being analysed from a number of perspectives, in particular focused on the transition of leading incumbent firms during a period of (potential) industry disruption. The questions aim to facilitate environmental analysis, and an analysis of resources and capabilities, and sources of competitive advantage, utilising a resource-based-view (VRIO/VRIN) framework. Case debrief could also illustrate that analysis of competitive advantage, and resources and capabilities which might be rendered more/less useful, is relevant and insightful in the context of industry disruption.

Case Questions and Answer Notes:

1. Drawing on an analysis of Bunning's resources and capabilities, what are Bunnings current sources of competitive advantage?
   - Ability to leverage Wesfarmers (and in particular Bunnings) EoS and EoSc in purchasing, potentially logistics, management structure, internal financing (potentially), supplier relationships
   - Perception of best price offering
   - FMA in big-box (still enduring to a degree – despite Mitre 10 Mega etc)
   - In store experience

2. How is the N.Z. Home Improvement industry (and more broadly, the retail sector) changing? What major macro trends are driving this change?
   - Driving forces/industry foresight / PESTLE
   - Technological developments: online retail, distribution changes (drone etc – customised delivery services aka UBER for retail, Airtasker), AR/VR/Ai, purchasing/POS options (mobile payment, Alipay, click & collect)
   - NZ housing market – Govt policy Kiwibuild – shift to long term renting for many
   - Immigration and millennials moving away from DIY to using "do it for me" apps
   - Entry of large generalist online retailers such as Amazon competing in some areas

3. In assessing Bunning's current resources and capabilities, is the company positioned to respond to these changes?
   - Scale advantages and strong supply chain and supplier relationships with own brand and exclusive deals, better bargaining power than local rivals
   - Core customer loyalty and brand recognition, ability to transition from in-store sales to click and collect with current capabilities
   - Large share of the trade market which is more conservative than the consumer market
   - Ability to develop stronger links with trade sector through apps

4. How can Bunnings maintain its focus on customer experience if shifting to an online strategy?
    - Click and collect offers opportunities to interact with customers and offer value-added services
    - Capabilities for customer loyalty and customer experience could be developed or advertised through apps, enhanced video demonstrations
    - Use of distribution system for enhanced delivery from online orders. Could develop or buy “do it for me” service for in house fitting
    - Avoid online – most sales in-store; discussion first movers / follower advantages

Acknowledgement

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