

Home Improvement

Home Depot is invading China, but B&Q has a big head start in figuring out what mainland homeowners want | By Fara Warner

After a year in Taiwan, home-improvement chain B&Q figured it knew how to sell to Chinese consumers. So in 1999 it entered the mainland, opening a store in Shanghai. It quickly realized that it understood hardly anything about China. “We got some things right but a lot of things wrong,” says Steve Gilman, chief executive officer of B&Q Asia.

While Taiwan consumers had been improving their homes for years, Chinese consumers were figuring out what it meant to even own a home. Chinese families had long lived in cramped government-owned apartments or centuries-old communal dwellings. Now an increasing number live in high-rise apartments or even single-family homes that wouldn't look out of place in a U.S. suburb. But, B&Q learned, those new homes come with a caveat: Nothing's included. “The Taiwanese consumer moves into a newly built house that is built to the standards of Europe,” says Gilman, who's based in Hong Kong. “Chinese move into homes that are concrete

shells. They need everything from pipes to furniture. It's much more of a BIY market, buy it yourself and have someone install it, than traditional DIY (do-it-yourself).”

U.K.-headquartered B&Q moved fast to overhaul its strategy. It more than doubled the size of its next two stores, to 150,000 square feet. And the stores offered a design service for novice homeowners. That was a first for the chain, which had hundreds of stores back in the U.K. “We had to learn a whole new set of skills,” says Gerry Murphy, the chief executive of B&Q's parent, Kingfisher, in London. “We had to help people design and develop their apartments from scratch.”

B&Q now has 58 stores in 20 cities, from Shenzhen in the south to Harbin in the north, making it the country's biggest home-improvement chain. Mainland sales for the year ending last Jan. 28 were \$557 million; profits were \$356,000. Analysts expect B&Q to earn around \$18 million in China for fiscal 2007. The company says it's targeting \$1 billion in China sales for fiscal 2008. That's enough to start making the China operation critical to Kingfisher's





GREG GIRARD FOR FORBES (3)



Catering to China's buy-it-yourselfers: At B&Q store in Shanghai (Pudong) employees are at the ready to answer customers' questions.



Mariusz Gliwinski
shrugs off the Home
Depot deal in China.

tage, says one analyst. “B&Q is way ahead of Home Depot in terms of scale,” says Matthew Crabbe, an analyst with Access Asia, which tracks the consumer goods and retail industries in China. “There will be very little space for Home Depot to create its own niche. The Chinese market is so competitive, and margins so small, that it has to be about the ‘pile ‘em high, sell ‘em cheap’ principle.”

Home Depot isn’t the only challenge in China. B&Q plans to keep opening roughly a dozen stores each year for the next four years, doubling its outlets to around 100 in 2010. That’s putting pressure on its operations and also on its profit margin as it moves into less-affluent cities.

What the company is hearing now is leading it to alter its design-center strategy. While many Chinese still buy empty shells, builders are offering more fully equipped apartments and houses. So the company has begun opening mobile design centers at building sites, allowing customers to decide what they want in their homes—and have the builder install it—while construction is under way. The centers also offer free bus rides to B&Q stores in nearby cities so that customers can see fully built models of kitchens and bathrooms. “This is the first apartment they have owned,” Gliwinski says. “They need advice, and they need imagination. You need to let them see what a home looks like.”

“We come here for ideas, and then we may buy from here.”

overall business. In fact, Murphy points out, more than 10% of the company’s 700 stores are in Greater China, including 21 in Taiwan. “China is increasingly an important part of our story to investors because of the growth prospects,” he says.

Now that growth must be shared with the largest home-improvement retailer in the U.S., Home Depot (see page 22). Last month the chain said it would enter China and buy the Home Way, a home-improvement chain that started 11 years ago and now has 12 outlets in northern China. Home Depot leaves no doubt that it intends to become China’s number one home-improvement retailer, too, and has B&Q in its sights. “Expansion in China is an important area of growth for the Home Depot,” read the company announcement.

B&Q shrugs off the Home Depot deal, which had been long rumored. “We never expected to be alone in this market,” says Mariusz Gliwinski, who had been on the job as president of B&Q China for less than a month when the Home Depot news broke. “Home Depot was always considered to be a part of the competitive landscape in China [because it had assisted Home Way in building its business for years]. It may, in fact, make our life easier, because it also will be promoting home improvement.”

B&Q joins the battle with the advan-

“Rapid growth can bring a lot of risk,” says Gliwinski, who previously ran B&Q’s operation in Taiwan. So he’s working to avoid operational snafus and maintain quality control so customers don’t get turned off, he says. B&Q wants to “be the best-quality retailer, not just the biggest.”

The design service has been a boon—accounting for a third of sales in China—and could give it a crucial advantage against embattled Home Depot (see following story). By the time its third store had opened, in Shanghai, B&Q had developed a full-blown in-house design center. Homeowners can sit down with an interior decorator using a computer displaying three-dimensional images of their apartment. The decorator then hires contractors to install electrical outlets, bathroom plumbing, kitchen appliances, flooring and most everything else. The only rule is that 80% of the goods must be purchased through B&Q. In 2006 the company outfitted 30,000 apartments in China.

To figure out the ever evolving taste of Chinese consumers, B&Q relies on its 12,000 employees for insight, says Gliwinski. Informal chats in the stores, as well as staff meetings, help drive the latest intelligence up to the head office. “The market in China changes so rapidly that we have to move much more quickly and make faster decisions than we do in Europe,” he says.

In a B&Q store in Shanghai customers take photographs of the kitchen and bathroom mock-ups, jot down notes and make shopping lists. Wang Ji Hong and Luo Hui Fang, a young married couple shopping in the city’s Pudong district, say they spend hours in the store and will come back several times before they decide how to outfit their new apartments. “We need everything,” says Luo, a woman in her mid-20s, through a translator. “We come here for ideas, and then we may buy from here.”

B&Q’s next phase of expansion will test its ability to keep in touch with its customers and their pocket books. It’s moving into cities that Gliwinski says are as different from Shanghai as the U.S. is from France. “While America is a big country, 95% of what the standard home-improvement store in Texas and in Alaska offer is similar,” he says. “That’s not true in China. Tsingtao and Shenzhen might as well be in different countries.” For example, he says, his stores in the north sell lots of carpeting and wooden flooring, while homeowners in Shenzhen prefer tile or marble because of the heat and humidity. Ovens are for sale in Beijing but not in Kunming.

Add to that China’s vast income disparities from region to region and a one-size-fits-all approach to home improvement obviously won’t work, Gliwinski says. In Tsingtao, for example, residents make

about half of what Shanghainese make, so B&Q must adjust its prices. In Shanghai it charges up to 100,000 yuan for a fully designed apartment, including all the materials. In second-tier cities such as Chongqing—which at 35 million people is triple the size of Shanghai—it offers a similar deal for less than 50,000 yuan. At either price customers get a money-back guarantee that the products are authentic and the work is done right. “There’s so much counterfeiting in China that people do take comfort in a strong, overt guarantee of authenticity,” says Murphy, the Kingfisher chief. “If it says Bosch on the box, then it has to be Bosch inside.”

Even as it expands into new cities, B&Q must keep tabs on trends back in Shanghai and its other big markets. Brands such as Swedish retailer IKEA are gaining traction because they offer a distinct and consistent style. Increasingly it appears that Chinese consumers don’t want to simply create their own style. That runs counter to B&Q’s strategy of stocking a broad range of designs so “you can have it your way,” says Murphy, “not, you can have our way.”

So in late 2005 B&Q began testing a private-label housewares-and-furniture brand, G-Plus, produced by Hong Kong firm G.O.D., or Goods of Desire. The line features completely arranged rooms presented much as IKEA does with its many models. But while IKEA offers a Scandinavian design, G-Plus is experimenting with a fashion-forward Asian look. There are updated versions of traditional mah-jongg tables, couches covered with Asian-inspired prints and curtains that feature Chinese writing. “My sense is that the accessories work well,” says Murphy. “But the full-themed rooms may take the design a step further than what Chinese consumers want today. I’m not certain it’s a universal proposition for China.”

Indeed, even as he plays with the mah-jongg tiles displayed on the tables at a B&Q, the young husband Wang says he wouldn’t put the furniture in his new home. “I don’t want something so traditionally Chinese.” Years of practice at staying at least “a half hour ahead of China’s constantly changing consumers,” as Gliwinski puts it, may prove to be the edge B&Q needs to stay ahead. **F**