

Strategic analysis of bandq



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Introduction

What is the DIY idea when people doing the fitment in UK? The probable answer is the B&Q which has the leading idea of Do It Yourself in UK's home improvement retailers. However, during various rapid changes such as economic fluctuation, new customer demand and new government regulations, B& Q is facing a downtrend after reached its peak in 2004 that earn £400 millions. This paper will go through the analysis of the B&Q strategy management to discuss this issue, proposal to solve this problem and the suggest solution of the problem produced by the proposal.

Strategic analysis of B&Q

Overall view

B&Q is the largest DIY Home Improvement retailer in European and is the main subsidiary retail of Kingfisher, which was the third largest Home Improvement retailer in the world. It was founded in 1969 and became the leading player in the DIY Home Improvement retailer market in the UK. Its business strategy focuses more on low cost, self-service and strong organizational culture.

Basic strategic logic

Environment

The analysis of external and internal environment of DIY market is becoming very vital due to the rapid change from 1980 to now. B&Q has grown fast through various advantages of external environment of the DIY market from 1980. Firstly, the stable economic and government encourage rules supported people to own their home, resulting in a high boom of home price.

Therefore, increasing expenditure on maintenance and fitment of house is becoming a main investment as its high value of capital assets. Secondly, the image of the house presents people's lifestyle, social status and achievement that accelerate customer to invest money to reach the self-esteem recognition. As the support of government policy, the low interest rate is a major factor to help people has more capability to refurbish and revamp homes. B&Q reacted to this positive environment by changing quickly and nicely in a right time leads its high success. Refer to technology analysis, B&Q through adoption of ERP system SAP to help expand supply chain and through phone and online order to increase the sale.

However, the market is declining from the late 2004 and the customer demand has changed such as focusing on the high quality rather than low cost. In order to cope with those demand change, B&Q adopted several strategies which include the high innovation of new product, increasing ranges, entering into RMI market, increasing store size, open new mini house, increasing the Warehouse division and improved professional service.

In conclusion, there is a fit between this strategy and the Home Improvement market in the earlier time which can be illustrated by the B&Q's high profit (see Appendix 3). However, it needs to improve more to fit well with this market later owing to the rapid change from 2005.

IO-style

Five force framework

Competitive rivalry

There is a strong competition between the existing players in this market and B&Q run into a high competition with few but larger competitors under the low differentiation market. However, in the early 1990s, each player strongly target on different market. For example, the two major rivals emphasize on different target that Homebase target more on the “softer female friendly image” while Wicks target the “Serious DIY” and Tradesman customer.

The threat of entry

Owing to the positive and attractive external environment of DIY market, various competitors entered into this market instead of few and larger rivals earlier specially some private equity company such as Argos and Floors-2-Go, B&Q faces more stressful environment because they provide some more advantageous conditions. For example, Tesco supply reliable range of DIY product and lower price than B&Q which threaten the B&Q lower price strategy; Ikea strengthen its dominant product in Kitchens, Lighting and Storage which reduce customer’s loyalty on B&Q product in this area; Wilkinson’s strong online competition declared B&Q’s weakness on IT. Moreover, new specialist competitors instead of the traditional rival investment in these sectors show their strength on increasing number of stores, product expertise, greater service and promotion than B&Q.

The threat of substitutes

The main threat from the substitutes of B&Q would be the accessory of home instead of the furniture. Another risk is that during the lifestyle or economic crisis some people reduce use the formal furniture in the home. Otherwise there is low threat of substitutes in Home Improvement market.

Buyer power

The switch cost is very low when there is a limited differentiation. The case shows that B&Q has lack of differentiation with its competitors. In this case, customer can easily switch to another company in this home improvement industry market. Therefore, the buyer power is very high in B&Q.

Supplier power

The role of supplier in B&Q's case is not very strong as the buy power, because there is less strong position of seller. Consequently, B&Q apply two strategies to cooperate with them. Firstly, reward will be given when there is a great innovation. Secondly, a bigger share of business will be given the favored suppliers and the suppliers were rated by their better negotiation, history of price reduction and performance.

In conclusion, the analysis of five competitive forces illustrates that B&Q stay in the working environment that has less threat of substitutes and supplier power with high threat of competitor, new entry and high buyer power.

3 generic strategies

B&Q put itself in the low cost position and through application of overall cost leadership strategy to achieve the competitive advantage. In this area, B&Q has a specific Cost Price Reduction Programme which is achieved by long

term better cooperation with suppliers, increasing own brand products such as Performance Power and Colours, reducing Warehouse price, increasing the local Distribution Centres in Doncaster and Scunthorpe and decrease in the price on particular product comparing with the one before.

However, from late 2004, the home improvement market dropped down because of the increasing interest rate, taxation and pension contributions, B&Q is up against cost stress from various aspects such as the increased staff cost due to the increase in the government policy of minimum salary, rapid increasing store rents. On the other hand, due to the new market trends from the early 2000, customer emphasis more on the quality than the price.

In conclusion, B&Q's generic strategy that overall cost leadership is well fit with its industry organisation strategy earlier, but it needs to improve in order to cope with the demand change.

M-style

According to the Appendix 7 from the case, it can be seen that B&Q focus on the mass customers that offer the wide range across all categories, strong price strategy, small format for convenience, big stores and mix of brand and own brand. Among its two majors which are Wickes and Homebase, the main customer target of B&Q are the serious DIY'er and Basic DIY'er and few DIFM supporters. Wickes also involve the segment of Serious DIY'er and Homebase set foot in the segment of DIFM Projects which need high professional advice.

The highlight on low price reflection on B&Q would be put in the position 2 which refers to low price strategy in the strategy clock. However, with the

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change of customer demand such as the customer getting more and more attracted by the high quality, individualisation and specialist which here refers to some people prefer more professional service than DIFM to DIY, the B&Q's marketing strategy can not fit well with the customer needs in the Home Improvement market.

RBV-style

The threshold resource in B&Q is the basic and wide range of product to meet the consumer's minimum requirement. There is a strong support of financial resource by Kingfisher to sell the freehold assets to release the cash to support the expansion of B&Q. B&Q employ some retired tradesmen to offer the professional knowledge, experience and service. This type of employees enable B&Q has a unique resource that it is the first company to hire the staff that are all over 50 years-old staff for their stores. Furthermore, this unique resource also results in the lowest absenteeism rates which improve the high work efficiency.

The strong financial resource can cope with the dynamic capability for the future success through high support on each business activities of B&Q. However, the unique resource that over 50 years-old staff would not be a unique or positive resource in the future when the staffs become older inducing the high turnover rate and high turnover cost. This kind of rules will reduce the efficiency of work. Due to some inconvenient characters of old people and there will be low efficiency work than young people.

In addition, after merger with France's leading retail in the same market, B&Q try to highlight on the international resources to achieve high returns on

finance. This international resource has positive influence on reducing cost to achieve low price strategy.

ST-style

According to Mitchell et al (1997), stakeholders be analysed from three attributes that are power, legitimacy and urgent. Government regulations can be seen a definitive stakeholder due to its power on changing environment through changing interest rate, taxation and so on. This case illustrates that the increasing interest rate and taxation directly and quickly influence the B&Q's profit. Customer is the dormant stakeholder which has high power and in B&Q. Staff and supplier regard to the dependent stakeholders which has less power but much interest that the B&Q should try to do their effort to bring them participates in the business activities. For example, B&Q stress on the team culture which provide opportunity for employee promotion and good cooperation with suppliers. Management, shareholder who has high power and legitimacy can affect on the whole strategy management in B&Q. Competitors can be treated as dangerous stakeholder in B&Q case which has power and urgency with little legitimacy. The case pointed that the rivals open more out-of-town stores than B&Q during the market slowdown period, while the CEO Ian Cheshire ignore this competitors change that commenting that they can't find this market change.

In general, B&Q should take care of each stakeholder and keep close watch on their activities to meet their demand to cope with the rapid demand change. From the case description, it can be seen that B&Q put customer in the first place of stakeholder priority which more focuses on the customer

and market trend to take initiative to satisfy the customer in the rapid change. However, when they realized the increasing role of women, young women and single-person in the market, they did not take some action to attract this specific target. In addition, during they recognize the growth space of DIYM, they did not take any specific strategy to cope with change.

Application of the suggestion strategy

It is seen clearly that B&Q strategic management may not be consistent with rapidly changing environment. As most business will face the problem or decline in their life cycle, B&Q has profit deduction when facing the market slowdown. The Home Improvement industry is directly and heavily influenced by the fluctuation of house property industry, so it is can be acceptable in some extents if B&Q is falling down when there is house market slowdown. However, it still needs to find some turnaround strategy to cope with the rapid change.

Firstly, based on the analysis of B&Q IO-style strategy, it is known that B&Q apply the cost leadership strategy as the major strategy in this industry organisation and its product is lack of differentiation. However, this mere strategy loses its advantage when there is another big competitor also using this low cost strategy. It is better that the company should have some uniqueness which other competitors difficult to imitate. So it suggests adopting the hybrid strategy which combines with the low cost and differentiation. This differentiation strategy can be achieved through seeking unique product, service, and distribution. For example, B&Q gradually launch its own brand such as “ clours” paint. Apart from launching own brand, B&Q can try hiring some specialist employee who can offer professional service

and distinctive advice for the customer even B&Q already removed some jobs to reduce the cost after market slowdown. This professional service can be specific related to the DIMF which has more growth room in the new demand environment or related to the after-sale service about people using DIY.

However, this strategy is not easy to implement because of the difficult balance between the low costs with differentiation. As the differentiation needs high investment on technology, research development, and high level staff and so on. In this condition, firm need to find a way to reduce the cost while try to meet the differentiation demand. In recruitment of talented people, company can try training staffs in the organisation instead of employing outside the company to reduce the cost. On the other hand, B&Q can try outsourcing through low labor cost, good resource, experts to reduce the costs. Purchasing cheap product from oversea also maybe a solution to the decreasing the cost in this situation. Moreover, adopting the third party logistic distribution also can help the cost.

Secondly, B&Q already realized that the woman, young woman and single-person were playing an increasing crucial role in decision making in this market. Such as the Low's research illustrated that around 80 percents of all home improvement product purchase is decided by women (Hoover, 2008). However, they did not make a strategy focus on this particular market target. To satisfy the women target, B&Q can try some soft categories and pleasant environment for them as its rival Homebase do. To satisfy young women and single-person, B&Q can seek to introduce some high fashion, nice design and unique product to meet their high lifestyle requirement.

Normally, this type of customer focuses more on the high quality and design rather than low price. On the other hand, in the modern city, there is more and more people renting a house rather than purchasing a house. So B&Q can try introducing some nice product which has short lifecycle with low price such as some one-off product or some policy that offer renting the product. As consequence, renter will consider to buy those products without worrying about the waste when renter is moving out the house.

However, this suggestion has limitation on the difficulty of exploiting new product especially for the short lifecycle product and renting product. On the other hand, there is a high risk of the introduction of the short term product or rent strategy and focus on specific target. So it advise company to do the product development fund on the plenty customer research.

Thirdly, from facing the strong online competition from its competitor, it suggests that B&Q strengthens its IT. With the development of Internet, more and more people prefer online shopping and check. Furthermore, the strong online sale implies decreasing the labor cost in the store and operate cost of the stores. As the B&Q spend much money on the increasing numbers of the Warehouse, size and format of the store, all this cost can be largely reduced if customer chooses online shopping. On the other hand, it is very convenient and even curtailing some transport cost of shopping for customer doing all the process that product choosing, tracking, check-out and payment online. Moreover, B&Q can offer various sale, promotion and special service for online order to attract more customers purchasing online. For example, Home Depot is launching a wireless scanner service to help decreasing customer's time on the checkout lines (Hoovers, 2008).

However, the application of strong IT strategy needs much investment on the technology and finance. Therefore, it stresses the financial problem of how to collect the fund. To solve this problem, it is suggested to take long term bank loan, find some customer or company to invest B&Q through some attractive participating items or obtain some advantage from the suppliers. The explanation of advantage by suppliers here is that pay the money after they sold the products. It helps the company release the fund to turnover.

Lastly, based on the information description from the case and analysis of B&Q, it is seems can not find the B&Q do any B2B business. So it suggests that B&Q apply the B2B strategy which regards that company has alignment with other companies. In this situation, it can cooperate with the real estate company or some group of customer. Through the economic scale with the real estate company, it provides competitive advantage for B&Q not only on the increasing sale but also on the purchasing from it suppliers. On the other hand, the cooperation with real estate companies is can be seen as a free advertisement.

However, this suggestion is also facing some problems with the real estate company in terms of the cooperation and the reputation of that real estate company. Because if the real estate company that cooperate with B&Q have not good reputation, it will also influence the customer evaluation on B&Q product. For example, if the customer is not satisfied with that real estate company, later they may also not purchase the B&Q product which has relationship with that company for their house. So in this case, B&Q should try to find a reputed real estate company and offer some good project to

attract them. For example, offering low price for mass purchase is one such attractive rule.

Conclusion

From various analysis performed based on the B&Q case study, many factors which lead to the success and failure of B&Q could be studied. Four suggestions are given in this paper through hybrid strategy, specific market, IT improvement and B2B strategy. Although this paper provides various suggestions to help B&Q manage the change, there are still number of limitation on implementation of these proposals.