# Annex 17:

# Mainstreaming sustainability and climate adaptation and mitigation through the DIY and construction material and component supply sector in England

# July 2015

John Blanksby, Pennine Water Group, Department of Civil and Structural Engineering, University of Sheffield.

# Summary

This document discusses the potential for the DIY, building material and construction component supply sector in England to contribute to mainstreaming sustainability.

Although information on sustainable products is available on the web sites of the national suppliers and on some regional/local SME suppliers, the competitive nature of the sector ensures that there is an emphasis on price on the product pages and in store. This means that the potential benefits of more sustainable products are not fully implanted in customers’ minds. Thus there is little positive promotion of sustainability. The exceptions to this are energy efficiency where there is regulation and sustainable sourcing of timber. Without some form of intervention it is unlikely that this will change as sales are dependent on price. Therefore, the promotion of sustainability needs to be addressed in some other way. It cannot be left to the suppliers to do this themselves as it flies in the face of survival in a competitive market.

Contents

[Introduction 1](#_Toc426376584)

[The DIY and construction material and component supply sector in the UK 1](#_Toc426376585)

[National groups 1](#_Toc426376586)

[Company strategies 1](#_Toc426376587)

[Support for sustainability 2](#_Toc426376588)

[Local independent suppliers (SMEs) 2](#_Toc426376589)

[Factors affecting attitudes to sustainability within the DIY and construction material and component supply sector in England. 3](#_Toc426376590)

[Impact on customers 4](#_Toc426376591)

[Appendix – National company strategies 5](#_Toc426376592)

[Travis Perkins 5](#_Toc426376593)

[Levers of value creation 5](#_Toc426376594)

[Divisional strategy 6](#_Toc426376595)

[Our growth ambition 10](#_Toc426376596)

[Saint-Gobain (Saint-Gobain Group) 11](#_Toc426376597)

[Strategy 11](#_Toc426376598)

[Grafton Merchanting GB (Grafton Group plc) 14](#_Toc426376599)

[Strategy 14](#_Toc426376600)

[Key Objectives 14](#_Toc426376601)

[Key Strengths 14](#_Toc426376602)

[B & Q. (Kingfisher) 14](#_Toc426376603)

[Our strategy – Creating the Leader 14](#_Toc426376604)

[Purpose 15](#_Toc426376605)

[Objectives 15](#_Toc426376606)

[Financial benefits 15](#_Toc426376607)

# Introduction

The building sector has a major role to play in the implementation of measures to promote sustainability, and climate adaptation and mitigation. At household scale, the implementation of such measures depends on the awareness, motivation and capacity of three distinct groups:

1. Property owners and occupiers who ultimately pay for the implementation of the measures
2. The Small and Medium Enterprise construction sector, often with emphasis on the small at household scale
3. The DIY and construction material and component supply sector comprising national groups and local suppliers.

Each of these groups has a significant influence on the uptake of sustainability and climate adaptation and mitigation measures, but the DIY and construction material and component supply sector has a potentially significant role in raising the awareness of its customers and providing ease of access to the relevant products.

However, such organisations are commercial concerns operating in a competitive market and as such have to satisfy the needs and demands of the other two groups, otherwise they will lose custom and fail in their obligations to their shareholders. In order to understand how this sector can contribute to mainstreaming sustainability and climate adaptation and mitigation and arrive at reasonable expectations about its potential contribution, it is necessary to understand the context within which it operates.

Once this understanding has been developed, it will then be possible to identify what needs to be done by others in order to enable this sectors potential role to be fulfilled.

# The DIY and construction material and component supply sector in the UK

## National groups

This sector comprises a number of national groups, each trading through a range of generalist and specialist brands aimed at the new build and property improvement sectors and at the infrastructure sectors. Examples of these groups include:

* [Travis Perkins plc](http://www.travisperkinsplc.co.uk/about-us/)
* [Saint-Gobain Ltd](http://www.saint-gobain.co.uk/), a subsidiary of the international Saint-Gobain Group
* [Grafton Merchanting GB](http://www.graftonmerchantinggb.co.uk/), the UK trading arm of Grafton Group plc.

In addition to these diverse national groups [B & Q plc](http://www.diy.com/)., a subsidiary of the Kingfisher plc, is the UK’s largest home improvement and gardening retailer, providing many of the services of the national groups under a single banner.

### Company strategies

Sustainability is to one degree or another reflected within the business strategies of these four company groups. However, because these strategies have an ultimate objective at maximising shareholder wealth, the sustainability objectives do not necessarily receive the emphasis that they deserve. The strategies are summarised in Annex 1.

### Support for sustainability

All four company web sites provide a considerable amount of information on sustainability, including background information, how to carry out different tasks, product information and in some cases information on training. The web pages of the four companies are as follows.

#### Travis Perkins

[The Sustainable Building Solutions](http://www.sustainablebuildingsolutions.co.uk/) pages provide information on:

* [New build](http://www.sustainablebuildingsolutions.co.uk/solutions/new-build)
* [Retrofit](http://www.sustainablebuildingsolutions.co.uk/solutions/retrofit)
* [Green Deal](http://www.sustainablebuildingsolutions.co.uk/the-green-deal)
* [Products](http://www.sustainablebuildingsolutions.co.uk/products)
* [Training](http://www.sustainablebuildingsolutions.co.uk/training)
* [Services](http://www.sustainablebuildingsolutions.co.uk/services)
* [Resources](http://www.sustainablebuildingsolutions.co.uk/resources)
* [Contacts](http://www.sustainablebuildingsolutions.co.uk/contacts/new)

#### Saint-Gobain

[The Saint-Gobain in the UK](http://www.saint-gobain.co.uk/) web pages provide information in the following page groups:

* [Products & Solutions](http://www.saint-gobain.co.uk/products-solutions/)
* [Innovation Centre](http://www.saint-gobain.co.uk/innovation-centre/)
* [Training](http://www.saint-gobain.co.uk/training/)
* [Info & Contacts](http://www.saint-gobain.co.uk/info-contacts/)

#### Grafton Merchanting GB

The [Go Green at Grafton](http://www.graftonmerchantinggb.co.uk/gogreen/index.asp) web pages provide information relating to a range of sustainable solutions in around properties.

#### B & Q

The [One Planet Home](http://www.diy.com/one-planet-home/) pages provide information on a broad range of subjects including pages on lifestyle choices and gardening. The [Help & Advice](http://www.diy.com/help-advice/1.hroot) pages also provide information on products and how to install them, many of which include sustainable options. These pages are supplemented by the [Net Positive](http://www.kingfisher.com/netpositive/index.asp?pageid=1) pages of the Kingfisher Group web site which provide contextual information on what the group is doing to achieve its sustainability objectives.

## Local independent suppliers (SMEs)

In addition to the national groups there are a large number of independent small and medium enterprise suppliers within the sector. These range between sole trades such as hardware stores and builders merchants with several depots. At the top end of the range, such groups may have turnover of around £40 - £60 million and as many as 20 – 30 outlets (typically a branch will turnover around £2 million each year), but this compares with the financial resources of the national suppliers which have turnovers of up to several billion pounds. This means that the resources of SME suppliers as significantly less than those of the national suppliers and this has an effect on the degree of support that these organisations can give to the promotion of sustainability to their customers.

It should also be recognised that SMEs tend to be private limited companies, whereas the national suppliers are publically listed or are subsidiaries of publically listed groups. This means that the SMEs have less need to publically state their policies as part of the communication processes with their current and potential shareholders. Consequently, there is considerable disparity between the degree of emphasis on sustainability that different SME suppliers display. In effect, much depends on the attitudes of a small number of shareholders and their advisers.

# Factors affecting attitudes to sustainability within the DIY and construction material and component supply sector in England.

In a competitive world, government regulation is probably the most influential factor in delivering sustainable outcomes within this sector. The energy efficiency of new buildings is one area in which regulation has been most successful and each new building is required to undergo a Standard Assessment Procedure (SAP) to demonstrate its compliance with the relevant standard. Additionally there is a requirement for all building to have a valid Energy Performance Certificate (EPC) when it is sold.

The Government also offers potential savings in the installation of energy saving methods through the “Green Deal” in which approved assessors, installers and finance providers can identify the need for and benefits of energy saving products, install the products and provide financial support including the identification of grants and feed in tariffs for home generated electricity.

The requirements on energy efficiency for new buildings and the support through the Green Deal for older buildings provide a stimulus for the sale of:

* insulation, eg solid wall, cavity wall or loft insulation
* efficient heating
* draught-proofing
* double glazing
* renewable energy generation, eg solar panels or heat pumps

and there is a ready supply of products in these areas. However, with the exception of a high degree of availability of sustainable timber products through the Forest Stewardship Council, there appears to be little concerted effort to promote sustainability to the public.

This is understandable as there is a considerable degree of competition in the supply sector and also in the building sector, which serves to drive down the value of quotations to property owners, particularly in the post-crash economic environment. This means that sustainable materials, which may cost more than less sustainable materials, can be priced out of the market as purchasers shop around.

Consequently, the attention given to sustainability on supplier web sites is not so evident in store, even though products may meet in house sustainability standards.

# Impact on customers

Although information on sustainable products is available on the web sites of the national suppliers and on some regional/local SME suppliers, the competitive nature of the sector ensures that there is an emphasis on price on the product pages and in store. This means that the potential benefits of more sustainable products are not fully implanted in customers’ minds. Thus there is little positive promotion of sustainability. The exceptions to this are energy efficiency where there is regulation and sustainable sourcing of timber. Without some form of intervention it is unlikely that this will change as sales are dependent on price. Therefore, the promotion of sustainability needs to be addressed in some other way. It cannot be left to the suppliers to do this themselves as it flies in the face of survival in a competitive market.

# Appendix – National company strategies

## Travis Perkins

### Levers of value creation

Travis Perkins’ strategy is centred on four priorities:

* Accelerate innovation of customer propositions
* Expand network and intensify use of space
* Exploit scale advantage
* Prioritise investments throughout the portfolio

#### Customer innovation and optimising the branch and store network

The underpinning activities to improving the customer proposition and improve the network including offering better value, extending range, better availability, format renewal, modernising TP branches and creating national networks in a number of the Group’s businesses are included in the plans for each of the divisions in the following sections.

#### Scale Advantage

One of the key value creation levers is using the Group’s scale to improve efficiency and deliver a better customer proposition.

The Group’s supply chain ambition is to provide branches and customers with easy access to the broadest range of products, reliably, efficiently, safely and on time:

* Ordering will be made simpler for branches with improved range management tools and automated stock replenishment systems;
* The Group’s distribution centre (“DC”) footprint will undergo further change, increasing lightside DC capacity and rolling out regional heavyside DCs;
* Route planning tools and further optimisation of the vehicle fleet will reduce the cost of, and enhance, the local delivery proposition.

The strength of the Group’s balance sheet enables businesses within the Group to access properties they would otherwise find it difficult to occupy. Furthermore, by developing multi-fascia sites, the Group is able to provide opportunities for the Group’s smaller operating businesses to co-locate with the Group’s larger businesses and benefit from greater foot traffic.

The Group is also focused on using its buying scale to source products directly from manufacturers at lower cost and in creating more commonality in product ranges such that it can further consolidate volumes so reducing costs further.

For many years, the Group has benefited from efficient, low-cost IT systems. These systems are approaching the end of their useful life and, therefore, a clear four point strategy has been developed to ensure better IT systems capacity and flexibility in the future.

* Delivering a common and shared trading platform across the Group’s merchanting businesses;
* Delivering an appropriate multi-channel presence for each brand making it easier for customers to order, buy and receive delivery;
* Simplifying back office systems to enable decoupling and enhance efficiency;
* Increasing system usability and the experience for colleagues and customers so that the Group is easier to do business with.

#### Portfolio management

Starting with the Group’s revised approach to managing its portfolio of businesses, the Group has developed a more robust planning approach enabling it to allocate capital to the opportunities which are expected to deliver the most material value for shareholders. Aligned with this approach to managing capital allocation is a revision to the metrics upon which the Group is managed. Future lease-adjusted return on capital will become an increasingly important measure of success as the Group believes it best aligns investment decisions with the ultimate goal of shareholders; their return on equity.

In order to improve lease adjusted return on capital management responsibility for both earnings and capital employed will be devolved further down through the business. This greater accountability and autonomy will be managed and monitored through improved processes for governance. As management in each of the businesses take more control for managing returns, central functions will be streamlined to ensure all teams are closer to the businesses they support and ultimately customers. This revised approach to capital allocation is creating more competition for capital.

Capital expenditure is expected to increase in the medium term to take advantage of development opportunities in the market and will be tiered based upon the risk and return profiles of the various investment opportunities identified. The tiering of capital spend will be managed under four broad headings:

1. Extending the Group’s leadership: investment in proven businesses and opportunities delivering attractive returns.
2. Investing to grow: investment in customer propositions to adapt to changing customer needs and cement the Group’s market leading positions.
3. Infrastructure investment: investment to enable future outperformance.
4. Divest: where there are better uses for capital to grow or return to shareholders.

### Divisional strategy

#### General Merchanting Division Strategy

Travis Perkins is, and for the foreseeable future will continue to be, the Group’s core business. It is the Group’s largest business by sales, profitability and one of the highest returning businesses operated within the Group.

There is significant scope for network expansion and relocation. Travis Perkins is targeting 5-15 net new branches per annum and to increase the number of Benchmarx Kitchens and Toolhire equipment implants. Furthermore the Group recognises the need to modernise the branch network with plans underway to develop a new branch format, ‘TP 2018’, alongside further development of TP’s multi-channel proposition.

The plans to improve the TP multi-channel offer are set out below:

|  | **Customer experience** | **Infrastructure** |
| --- | --- | --- |
| 1. Where we are now | * Clean and functional * Passive * Non-transactional | * Branch to site delivery for heavyside * Branch collection only for lightside * Branch acting as call centre |
| 2. Next steps | * Transactional capability * Integration to pricing systems * Account management * Click & collect | * Heavyside distribution improvements expanding range and availability * Lightside range access from DCs * DC direct to site picking |
| 3. Where we will get to | * Leading online gateway * Interactive and social hub * Seamless experience across channels * Integrated CRM | * Cross-channel fulfilment for lightside * CRM and account management systems development * Contact centre coordination |

In summary, the Group is confident that Travis Perkins can maintain its market leading position and further drive improvements to the customer proposition and value to shareholders. The targets for improvement are set out as follows:

| **Measure** | **Current** | **Medium term ambition** |
| --- | --- | --- |
| Network expansion | 645 TP branches | 5-15 net new branches p.a. |
| Like-for-like sales growth outperformance | 0-5% | 1-4% |
| Operating margin improvement prospects | Sector leading | Sustain |
| Capital expenditure | £44m\* | £40-60m p.a. |
| Lease adjusted ROCE | - | Add 200-300bps |

\*Year ended 31 December 2013

Outperformance through:

* Local customer relationships
* Consistent range and range extension
* Better availability
* Sourcing and own label development
* Product knowledge and ease of transactions
* Format improvements
* Network and multi-channel development
* Managed services expansion

#### Plumbing and Heating Division Strategy

The strategy for the Plumbing and Heating division has three key elements:

1. Developing clear propositions serving plumbing and heating, bathroom installer and contract customers: The focus on bathroom installers, local plumbers and mid-sized plumbing contractors will provide solid returns through effective pricing and range substitution including through greater penetration of the Group’s ‘iflo’ exclusive ranges.
2. Intensifying use of space through the Group’s showroom concept and spares implants: The new ‘Endeavour’ showrooms are designed to help tradesmen win new business. New showrooms have been opened in 69 locations and are generating healthy returns. Approximately 40 new showrooms per annum are planned over the medium term.
3. Developing multi-channel, sustainability and own label product offerings: The acquisition of an online heating equipment distributor gives the P&H division access to growth in the online channel. Furthermore, the division is developing an additional multichannel capability to enable ordering, account management, and online transactions as well as providing enhanced product information tools to its installer network. Further work is underway to enhance the exclusive brands the Group owns including iflo and BOSS and to continue the progress already made in launching ‘Sustainable Building Solutions’ which accesses Government funding for improvements in household energy efficiency

The targets for the division are shown below alongside how the P&H division intends to outcompete in its markets:

| **Measure** | **Current** | **Medium term ambition** |
| --- | --- | --- |
| Network expansion | 525 branches | ~10 net new branches p.a. |
| Like-for-like sales growth outperformance | 0-3% | 0-3% |
| Operating margin improvement prospects | - | Good |
| Capital expenditure | £11m\* | £10-20m p.a. |
| Lease adjusted ROCE | - | Add 150-250bps |

\*Year ended 31 December 2013

Outperformance through:

* Clarity of contracts and installer propositions
* Enhanced branch pricing tools
* Sourcing and own label development
* Spares implants
* CPS network expansion
* Endeavour showroom rollout
* Multi-channel establishment
* Sustainable solutions growth

#### Contracts Division Strategy

The Contracts Division was formed on 1 January 2014, bringing together the three businesses that supply products to large construction companies and project contractors. These businesses all track major commercial and infrastructure projects and by bringing them together into one division, this will assist project tracking and selling into major contractors.

As with the other divisions, the Group has clear performance targets for the division including increasing the level of capital investment with the ambition of outperforming market peers.

| **Measure** | **Current** | **Medium term ambition** |
| --- | --- | --- |
| Network expansion | 181 branches | 1-2% net new space growth |
| Like-for-like sales growth outperformance | 0-3% | 1-3% |
| Operating margin improvement prospects | - | Good |
| Capital expenditure | £12m\* | £10-20m p.a. |
| Lease adjusted ROCE | - | Add 200-300bps |

\*Year ended 31 December 2013

Outperformance through:

* Deeper product knowledge and customer service
* Extended ranges
* Selective network expansion
* Category expansion
* Sourcing and own label development

#### Consumer Division Strategy

The key elements of the consumer division’s strategy are to:

* Enhance Wickes proposition to tradesmen and serious ‘DIYers’
* Gain nationwide coverage through Wickes store estate including renewing its store format
* Expand the Toolstation network through Wickes implants and standalone shops
* Continue multi-channel development

Wickes’ ambition is to always offer lower prices than its competitors alongside ranges, to include brands that trade and serious DIYers demand, which enable customers to complete any DIY or trade RMI project. Plans are progressing to improve online and in-store availability, improve ranges and enhance the level of customer service. Wickes already has a growing multi-channel business which holds its fair share of the online market, however, the Group believes there is opportunity to further enhance sales through this channel by adding additional ranges.

Wickes plans to continue to expand its network by between 5 and 10 new stores per year.

The early signs from the recent Toolstation store implants in Wickes have also been encouraging. These implants contribute to Wickes rental cost, are driving additional footfall and producing solid returns in their own right for the Toolstation business without increasing the Group’s lease commitments.

Toolstation is planning to continue to open both Wickes implants and standalone stores with an ambition to open approximately 100 shops in the medium term. Toolstation’s fixed prices, excellent availability, delivery promise and service proposition are resonating strongly with jobbing tradesmen and general DIYers who are not able to negotiate larger volume discounts from trade outlets. The performance of both standalone Toolstation stores and Wickes implants gives the Group confidence to extend the rollout of new shops.

The performance targets for the Consumer division are set out below:

| **Measure** | **Current** | **Medium term ambition** |
| --- | --- | --- |
| Network expansion | 227 Wickes 108 Tile Giant 143 Toolstation | 5-10 net new p.a. implants ~20 p.a. |
| Like-for-like sales growth outperformance | Flat | Above market |
| Operating margin improvement prospects | - | Good |
| Capital expenditure | £18m\* | £30-40m p.a. |
| Lease adjusted ROCE | - | Add 150-250bps |

\*Year ended 31 December 2013

Outperformance through:

* Clearer and sharper pricing
* Catalogue and online range extension
* Improved availability in Wickes
* Format renewal and network expansion
* Toolstation expansion and implants
* Tile Giant implants only
* Driving multi-channel harder

### Our growth ambition

#### General Merchanting



* Network expansion & modernisation
* Managed services
* Toolhire expansion
* Multi-channel investment
* CRM development
* Category & pricing management

#### Plumbing & Heating



* CPS expansion
* Network coordination
* Spares & showroom rollout
* Supply chain efficiency
* Multi-channel
* Pricing management

#### Contracts

Our growth contracts

* Deeper category management
  + Insulation
  + Partitions
  + Industrial
  + Civils
* Multi-channel development
* Network growth
* Contract pricing

#### Consumer

Our growth consumer

* Create national coverage
* Reinvigorate Wickes proposition
* Toolstation expansion
* Intensified use of Wickes space:
  + Toolstation
  + Tile Giant

## Saint-Gobain (Saint-Gobain Group)

### Strategy

Saint-Gobain, the worldwide leader in sustainable habitat solutions, designs, manufactures and distributes building materials and high-performance materials, providing innovative solutions to the challenges of growth, energy efficiency and environmental protection.

#### Improving our habitat and our everyday life

* **Sustainable construction**

Saint-Gobain has made the strategic decision to become the reference in **sustainable habitat** and construction markets. Taking a long-term view, the Group develops products and services for its customers that facilitate sustainable construction. In this way, it designs innovative, high-performance solutions that improve habitat and everyday life.

* **An international challenge**

Investing in habitat solutions is one of the **major challenges** facing both the most mature economies and fast-growing economies. Governments around the world are adopting policies designed to improve housing and working conditions and to **reduce energy consumption** in the building sector in the face of accelerating global warming and diminishing natural resources.

* **A market in motion**

At the same time, faster **technological innovation** in the construction industry is helping to drive significant advances in the architectural quality and environmental performance of buildings.

The development of building techniques and the significant expansion of the Internet have led to a growing demand among **craftspeople** for ever-more efficient and innovative distribution solutions.

These underlying trends create substantial opportunities for Saint-Gobain to develop **high value-added construction and renovation solutions** for professional customers to ensure that buildings are energy efficient, comfortable, healthy and esthetically superior, while at the same time protecting natural resources.

**Habitat solutions represent over 80% of our end markets**

* **Leading-edge High-Performance Materials**

The High-Performance Materials Activity delivers high value-added solutions for very different, complex applications in construction, as well as in industry.

Its in-depth expertise in a range of technologies allows the Group to get the most out of the complementary nature of its three families of materials (ceramic materials, high-performance polymers and glass fiber yarn).

As a result, Saint-Gobain can design solutions to meet its customers’ specific needs, often in industrial niches that are well suited to co-development strategies.

#### Ensuring a unique positioning

Saint-Gobain is uniquely positioned, with complementary strategic focuses in building materials and high-performance materials technologies:

* It is the **worldwide or European leader** in all of its businesses, with local solutions tailored to the needs of each market.
* It has an **unrivalled portfolio** of energy efficiency products and solutions.
* Its **deep understanding of building professionals' needs**, acquired through daily contact with customers, makes it possible to adapt the Group’s solutions to highly specific market requirements.
* It has **outstanding potential for innovation**, supported by unique industrial and distribution expertise and a commitment to materials research.
* Its culture of **operational excellence** gives the Group an underlying robustness and the ability to respond quickly to changes in the economic environment.
* Its solid set of tested **values** helps build lasting relations with all stakeholders, from customers and employees to suppliers, subcontractors, shareholders and the community.

A manufacturing presence in 64 countries, representing 64 springboards for growth

#### One of the 100 most innovative companies in the world

Research and innovation are at the center of Saint-Gobain’s strategy and **Corporate Social Responsibility policy**. The Group’s ongoing initiatives in this area are paying off; in 2014, Saint-Gobain ranked among Thomson Reuters’ Top 100 Global Innovator Companies for the fourth year in a row.

This is a responsibility for the Group’s teams, as well as a major **source of motivation**. Through their innovations, the teams play a part in reducing the environmental impacts of buildings, processes and the development of new high-performance solutions.

#### A Group attuned to the markets

Cross-business Habitat organizations present in 38 countries connect and coordinate the different Saint-Gobain Group brands with the aim of developing a shared, cross-functional range of habitat solutions.

These organizations foster dialogue among teams involved in research and marketing and help implement inter-Activity projects. The number of **cross-business innovation projects** is on the rise, strengthened by Saint-Gobain’s culture of partnership and co-development with customers and external partners. The Group also keeps a close eye on new markets through Nova External Venturing, a unit dedicated to external innovation and responsible for relations with start-ups. In addition, Saint-Gobain has numerous partnerships with scientific and academic institutions.

#### Developing Eco-Responsible Innovations

**Life cycle assessments** are conducted for all of Saint-Gobain’s building industry product families in order to measure their environmental footprint. The assessments enable Saint-Gobain to reduce the environmental impacts of its products while also creating value. A culture of eco-innovation is being extended to all of the Group’s businesses, in all its markets.

The Group is also working on reducing the environmental footprint of its industrial processes. Similarly, special attention is paid to product recycling. Concerning the shipping of materials, Group researchers are using their skills to develop models for more efficient and environmentally friendly shipping processes.

**Devising products that significantly reduce the environmental impact of the buildings and infrastructure that use them**

## Grafton Merchanting GB (Grafton Group plc)

### Strategy

Grafton’s strategy is to be an international trade supplier of construction products and related activities, built on service, supported by a strong financial base and operated within a framework of high business ethics and integrity and recognised by investors as a progressive, cash-generative business.

### Key Objectives

The Group's key objectives are:

* To generate above average long term shareholder returns.
* To be the first choice supplier of its customers.
* To improve cash generation and operating margins.
* To maximise returns on capital employed from the existing branch network.
* To increase market coverage where the Group is currently under represented.
* To refine and develop the range of products and services offered.
* To increase multi-channel supply capabilities.
* To develop beyond the UK, Ireland and Belgium in merchanting and related markets where opportunities exist to:
  + Achieve good returns on capital invested;
  + Achieve leading market positions; and
  + Where value can be added to familiar business models operating in unconsolidated markets

### Key Strengths

The Group's strategy is underpinned by key strengths that include:

* A profit orientated growth philosophy.
* A history of successful investment in acquisitions and organic developments.
* Leading market positions and brands in each of the countries in which the Group operates.
* Unique market positioning with scope to significantly develop the UK merchanting business through acquisition.
* Highly experienced acquisition and integration skills.
* A portfolio of highly cash generative and profitable businesses.
* Strong and capable highly motivated management teams.
* Innovative business development program.
* Sound financial metrics including cash generation, low debt and a strong balance sheet and financial capacity.

## B & Q. (Kingfisher)

### Our strategy – Creating the Leader

Launched in March 2012, 'Creating the Leader' is the current phase of our growth plan, and follows the successful conclusion of 'Delivering Value'. It will see us emerge as a world-class retailer, helping customers have better, more sustainable homes.

### Purpose

Our purpose is to make it easier for customers to have better and more sustainable homes. This approach will unlock more customer demand and grow our business to the benefit of all our stakeholders, creating a more valuable business for our shareholders, a better partner for our suppliers, a more secure and brighter future for our colleagues and a more sustainable business for our local communities.

### Objectives

1. Making it easier for our customers to improve their home (Measure: LFL sales growth)
2. Giving our customers more ways to shop (Measure: Unique web users)
3. Building innovative common brands (Measure: 35% of Group sales direct sourced, 50% of all product sales to be common)
4. Driving efficiency and effectiveness everywhere (Measure: Retail profit margin)
5. Growing our presence in existing markets (Kingfisher Economic Profit (KEP)\*)
6. Expanding in new and developing markets (Kingfisher Economic Profit (KEP)\*)
7. Developing leaders and connecting people (Group employee engagement scores)
8. Sustainability: becoming Net Positive (Net Positive dashboard)

### Financial benefits

Predicting the future retail profits benefits from this strategy, when we don’t know the economic conditions or competitive landscape we will face in the future is very difficult. However, whatever the conditions, we believe our efforts will drive higher LFL sales, higher gross margin and more cost efficiencies than would have been delivered without this programme.

In 2011/12 we estimated that this would create an additional £300 million of annualised retail profit in the fifth year, net of price reinvestment and based on the size of the business and the market conditions at that time.