THE BIG GARDEN CENTRE TAKEOVER

Haskins wants to increase its four-strong chain to six

As more and more independents are snapped up by the acquisitive chains, the world of garden centres is changing fast. **Mike Gilbert** of specialist garden centre and retail property consultants Gilbert Evans, and **Andy Newman** of mdj2 associates, retail consultants specialising in the DIY/home/garden sectors, look at what's driving consolidation, and at the resulting threats and opportunities

Over the past three years the garden centre sector has seen an exponential rise in consolidation activity. The takeover of independent operators, defined for the purpose of this article as owners of less than three centres, appears to be showing no signs of slowing down. On the contrary, the pace seems to be accelerating. Woodcote Green, Crowders, Sidmouth, Armitage's, Golden Acres, Garden Store, Trelawney, Newbridge and Garden Pride are just some of the long-established centre names that no longer feature on the independent garden retail landscape.

A continuing appetite for expansion

All the major groups continue to have an appetite for expansion. And acquisition is the fastest way to satisfy such an appetite. Wyevale and Blue Diamond both have high-profile acquisition requirements, with many other groups also seeking to expand. Hillier and Haskins are looking at opportunities carefully, as are the lower-profile groups such as Hillview, British Garden Centres and Cherry Lane. And it is not just the groups on the acquisition trail – the larger independents are also looking for new businesses.

A great market to be in

So what is driving such ambitious growth strategies? The past few seasons have been very good for the sector, with year-on-year growth in real terms – a performance that has eclipsed that of the high street. The major groups both want, and need, to expand. Shareholders want to see their money working harder and increased profits. The leading operators have substantial head office functions which make it easy to add additional centres. In turn, that enables the cost base of the acquired centre to be reduced and, at the same time, groups can apply sharper margins through buying power, own brands and other economies of scale.

In terms of acquisition targets, there is no one-size-fits-all approach, and interest is not restricted to the more affluent areas of the country. Whatever the size of a garden centre, whether it be freehold or leasehold, they will be potentially attractive to at least one acquisitive party. Potential to move the business forward adds value, but it is not necessarily essential.

Whilst transaction activity demonstrates that it is undoubtedly easier and quicker to expand through acquisition, new-build is not being overlooked as part of a growth strategy either. Work is underway on Rosebourne's first food and plant centre on its 8.5 acre site near Andover, and Blue Diamond is progressing its 97,000sq ft Tingley development in Yorkshire.

Opportunity or...?

But is on-going consolidation bad news for the sector and its stakeholders? Or is it creating new opportunities? Well, there is no point acquiring a business if it can't lead to increased profitability. Acquisition is therefore often followed by investment to create a business that hopefully is able to offer improved margins with lower overheads. Investment normally translates into customers enjoying improved facilities that in turn encourages longer dwell times and higher levels of spend.

However, for suppliers sector consolidation is resulting in both opportunities and threats. The main threat is that as the bigger groups acquire the larger independents, the size of the 'pool' gets smaller for suppliers and nurseries. The main groups are increasingly sourcing direct from Europe and the Far East on key product categories where improved cost prices can be achieved. This loss of volume can put significant pressure on a supplier's cost base.

But opportunities exist in focusing on supplying independents with innovative new product ranges, as the groups tend to play it safe and streamline their offer to enhance stockturn and cash flow. A similar parallel would be in the food sector, where domination by the 'big four' supermarkets over the past few years has led to a reinvigorated independent sector, such as delicatessens and farm shops, as some consumers opt for a return to the benefits of 'localism' – food provenance, personal service and high quality products. The supply base for garden centres is generally very well geared to support independents, so must work to find new ways to grow this element of their business.

Agile independents have the advantage

The real competitive advantage for independents is that they are more agile and can react and adapt quickly to emerging consumer trends and market change. It was the independents who originally led the way in finding new routes to market through multi-channelling, and it is only recently that the larger groups have caught up.

Differentiation and investment are the independents' key drivers for success. Strong points of differentiation can include raising the bar in personal service, a quality customer experience, convenience, supporting the local economy and engaging with new customers through forging strong community links. Whilst the larger groups can undoubtedly benefit from economies of scale, independents can strengthen their own financial buying power through joining buying groups to improve margins and provide a stronger value offer. Recent industry awards show independents continuing to thrive in the face of strengthening group competition, providing real evidence that successful smaller retailers are not resting on their laurels and are focused on continuous improvement.

Looking ahead, the industry will continue to thrive. Consolidation activity is set to continue but big does not always mean best. Independents that invest, adapt and grow will remain strong, profitable businesses. And ironically, those independents that do invest and differentiate are making themselves far more attractive to the acquisitive groups.

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Unstoppable? Now with just over 150 centres, Wyevale says a target of 250 is "a reasonable ambition"