THE B&M RETAIL BUSINESS MODEL

B&M Retail Ltd (B&M) is one of the UK's fastest growing retailers and over the last 10 years the chain has grown from 21 stores to in excess of 400 stores. Its "unique selling point" is purely the competitiveness of its low prices – it does not profess to have branding advantages, loyalty schemes or superior customer service. The business is based on a discount retail format, particularly targeting shoppers on restricted incomes, and it has grown strongly through the recent recession. B&M today employs some 17,000 staff. Over 10,000 of those jobs have been created in the last 5 years. The company has been recognised in the Sunday Times Top Track 100 and the Sunday Times Fast Track 100. These accolades and the growth of the business are a testament to the popularity of this retailer in the current economic climate. The company was listed on the London Stock Exchange in June 2014.

The primary activity of the "B&M Homestore" business is retailing of what are generally regarded as bulky and comparison goods sold in a DIY retailer. These include indoor and outdoor furniture, greening products, home textiles, household goods, flooring, furnishings, housewares including lighting and small domestic electrical goods, home adornment, seasonal items particularly Christmas and garden centre items, paint, wallpaper and DIY products. These DIY and Home Improvement product categories account for approximately 70% of the floor space and sales within the average B&M Homestore.

The remaining 30% of the floor space within a B&M Homestore are used for the retail sale of other comparison and convenience goods. These additional or ancillary goods are part and parcel of the overall business model.

Retailing is a business which requires a high proportion of fixed costs. The overheads of a store are primarily built-up by its rent, rates, utilities, staff and other fixed costs. The net profit margin of B&M Retail Limited, a discounter, is around 6%. If the turnover is reduced by (say) 20%, the costs of the business remain the same and on this basis almost all profit is eliminated. In other words, a discounter such as B&M Retail Limited is dependent on the impulse and ancillary sales of non-basis comparison and convenience products in order to make it viable and support its store, head office and distribution centre costs.

The store's average basket spend is approximately £11.00 (2010 prices). Obtaining an extra £1.00 on impulse buys is highly material to the viability of the store given the low average spend per trip. However shoppers categorically do not visit a B&M in order to, for example, conduct a grocery shop. It does not sell fresh produce, for example.

Approximately 60% of B&M's shoppers are over 56 years of age. These 'time-rich, cash poor' shoppers are drawn to B&M by its low prices and many are on limited and restricted incomes. The company's market research indicates that 60% of its customers are in the social and economic groups C2 and below. A significant proportion of its products are clearance or short-dated discontinued goods purchased from factories. These socio-economic groups are attracted by these clearance and end-of-line products.

The "B&M Homestore" format has also grown as the out of town DIY retail market has consolidated. That market is now dominated by B&Q, Homebase and Wickes, albeit the latter is more directed at the Tradesman customer. The fourth national chain, Focus DIY, has gone into receivership due in part to its inability to find a profitable business model. Homebase announced in December 2014 its intention to close a quarter of its estate over the next 3 years. The market leader, B&Q, has no ongoing store opening programme and is in fact also reducing its total UK floor space. B&M considers that the 3 remaining national DIY retailers are focused on the mid and upper market and they do not adequately serve the lower end of the socio-economic spectrum. In this regard no national retailer currently sells DIY products at discounted prices. Similarly the independents have been squeezed out of the DIY market and there are no significant regional DIY operators.

B&M's ability to trade successfully as a DIY discounter is wholly dependent upon the sales of its ancillary product areas. To those outside the retail industry it may sound implausible that a retailer cannot trade successfully if it were to lose only a small percentage of its turnover. However, that is absolutely the case given the fact that discount retailers trade on small net margins and rely on the quantity of lower value items to maintain their profitability. This is particularly the case for B&M with its low gross margins and having very little in store that is over a £30 unit price. For example, unlike the mainstream DIY retailers, B&M does not sell Kitchens or Bathrooms at several thousand pounds to increase its average transaction value.

The display and sale of DIY and home improvement products requires a retail unit with a large floorspace. There is an essential requirement for sufficient space for the display of the bulky goods for sale as well as space required for customers to examine the goods and try them where necessary (for example flatpack beds and furniture). There is also a requirement for customer circulation space for self service using shopping trolleys and customer service areas. Within a typical Homestore, goods are displayed as they may be in the home or garden, to provide customers with full information as to how products may meet their needs. Certain product ranges, such as Paint and Wallpaper, require a large amount of floorspace to hold the full range of colour or pattern options.

By way of further example is the sale of garden furniture, which must necessarily be set up 'in situ' in store so that customers are able to see the product prior to its purchase. Flat packed goods such as tables, chairs and wardrobes are displayed assembled, and the packaged goods are stored on the shop floor so that customers can transport them by trolley to the till.

The majority of goods are bulky goods that need a trolley to transport them around the store. Customers transport the goods themselves to the till, then goods are transported to the customer's own vehicle in the car park, there being no internet home delivery service available. Unlike the position (say) 20 years ago, there is practically no DIY, home improvement or garden centre retail chains now operating from small premises typically found in town centres.