
BAROMETER OF TRADE

Q3 2015 Review



AMA Research

October 2015

MARKET REVIEW

MARKET TRENDS

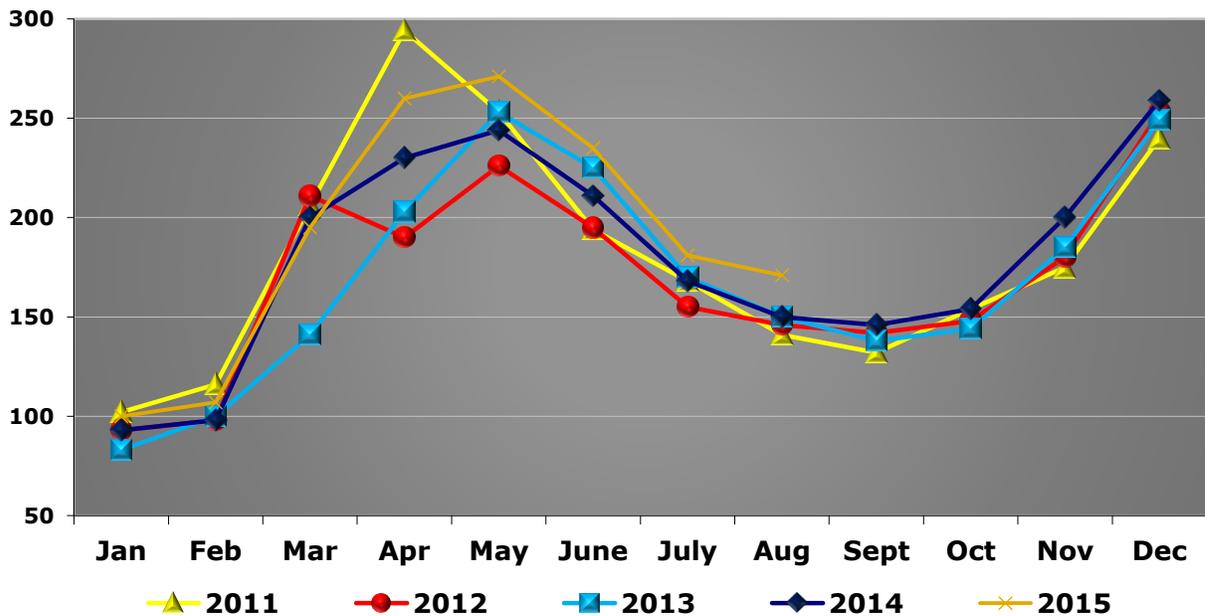
As we pass the main selling period for sales of most garden products, it's worthwhile reflecting a little on what appears to have been a good year for the industry. While not all sectors have seen significant growth in 2015, anecdotal comments and data from Garden Centres indicate that sales up to September are up by as much as 10% in several key sectors. Outdoor plants have performed particularly well with sales up around 10% over the same period in 2014, while furniture & BBQs and garden sundries have also increased by similar levels.

Demand for hard landscaping is also buoyant and all these sectors are benefiting from a combination of positive trends.

The chart below highlights recent trends in the Garden Centre sector, illustrating seasonality and general sales over the 2011-2015 period. The data is based on an Index and the chart contrasts the difficult period in 2012/13 with more buoyant sales in 2014/15:

Garden Product Sales Trends – 2011-2015

Index: January 2011 = 100

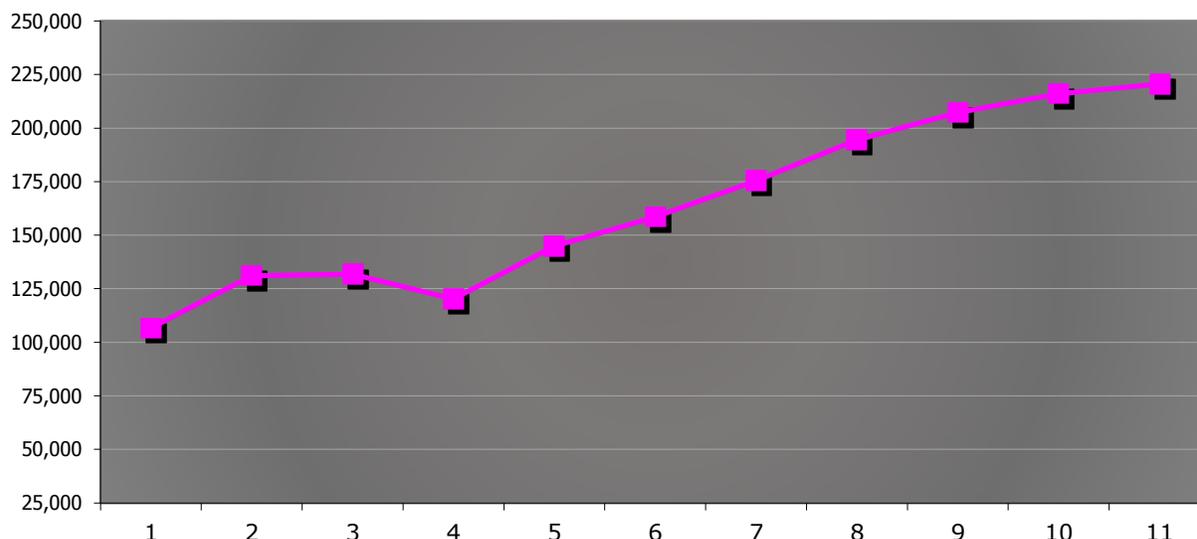


Source: GCA Barometer of Trade

The chart highlights the impact of the weather on sales with 2012 in particular emphasising the impact very poor Spring weather can have on the market. In addition, the chart also illustrates variations in seasonal performance – particularly the peak April-June period – with the underlying trend in 2015 proving positive in the year to date. In overall terms, it is interesting to note the close similarity in sales over the July-December period, with the increase at the end of year driven by Christmas-related sales.

With inflation virtually zero and average incomes rising by around 3%, growth in disposable incomes is finally showing through and feeding into rising consumer confidence. In addition, the growth in housebuilding levels is also fuelling demand in the garden products sector as new homeowners look to create a nice relaxing area in their new property, and the chart below illustrates recent trends in housebuilding activity and AMA forecasts for the next 4-5 years:

Housing Starts (Great Britain) 2009 - 2019 - By Volume of Dwellings



The chart shows the slow recovery in housebuilding in 2009-2012 which started to gather momentum in 2013/14 and is continuing into 2015. Undoubtedly, garden sizes in new housing are continually shrinking to keep house prices down, but this doesn't stop new owners from making the most of their space with imaginative combinations of hard and soft landscaping, as well as investing in leisure-related products.

Where does the housebuilding market go from here?

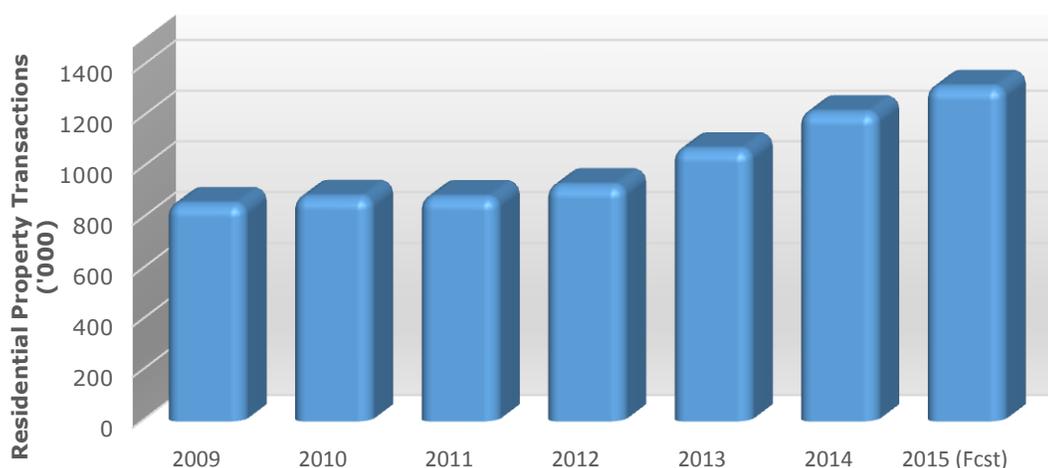
Everyone is aware that housing is rising rapidly up the political scale in terms of importance, with all political parties making declarations of various targets. Our forecasts indicate steady annual rates of growth of around 10% over the next few years, recovering to levels of over 200,000 by 2017/18.

This could prove cautious if major changes to planning, land availability and finance are implemented, but recent history shows that ambitious targets have been set before and never materialised, though there does finally appear to be some real commitment to address the problem, which augurs well for garden product sales into the medium term.

However, a key factor and cautionary note with the new housing market is the rising age of first-time buyers who have often spent a decade or more in rented properties. As a result, they are often less inclined to get involved in 'gardening' and see it more of a chore than a hobby, with varying impacts on different types of garden products.

Another positive factor driving a recovery in sales of garden products is the volume of housemoves, which is also on an upward trend after a stagnant period in recent years, as illustrated below:

Number of UK Residential Property Transactions - 2009-2015 ('000s)



Source: HMRC/AMA Research

As with new housing, moving house is often a trigger for new homeowners to undertake landscaping or gardening projects, though there is often a time delay as gardens are rarely the first priority for change when there's pressure on household budgets.

While 2009-12 was a flat period for housemoves, the market has picked up strongly in 2013/14, with growth of close to 40% forecast by the end of 2015, which will slowly boost sales of many garden products.

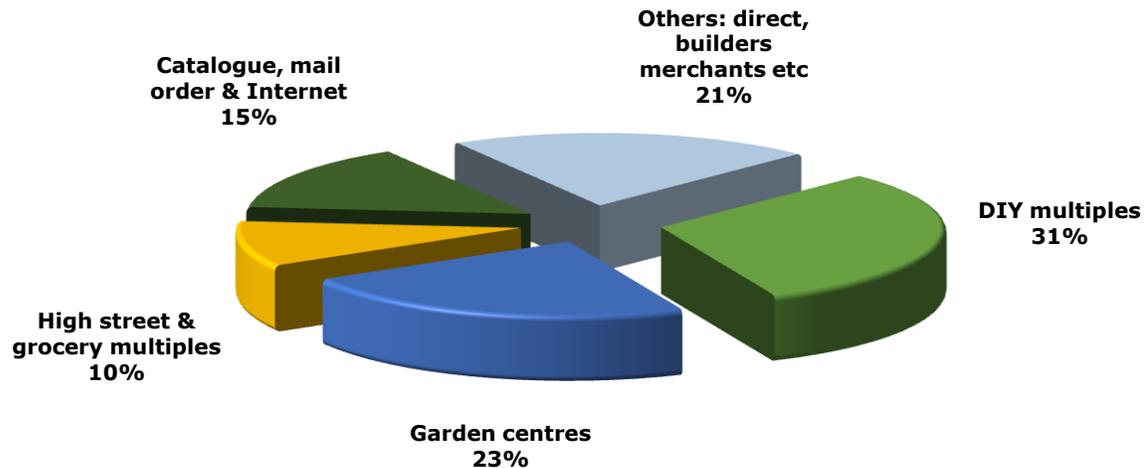
DISTRIBUTION

Over the next year, AMA will review a range of issues impacting on the garden industry, and in this issue we are reviewing trends in distribution.

At the outset, it is worth emphasising that with total domestic industry sales of over £4.5billion, garden products have one of the widest and most fragmented range of distribution channels compared with virtually all other home interest/improvement products.

The distribution structure is continually evolving, particularly in recent years, in response to changing consumer behaviour which is heavily influenced by digital technology - though traditional channels such as Garden Centres and DIY Multiples are still the key channels, as illustrated below:

Garden Products - Distribution Channel Mix



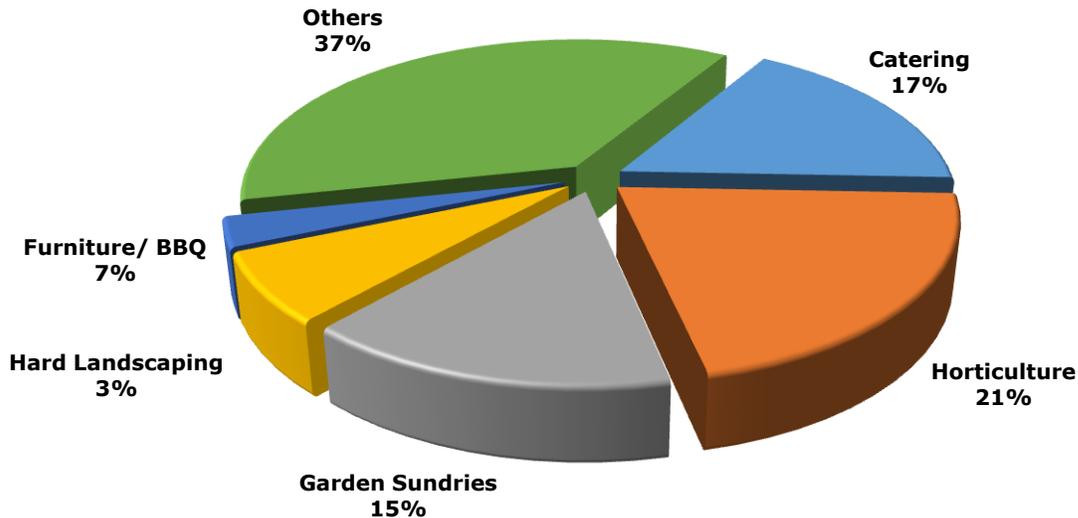
Source: AMA Research/Trade Estimates

Firstly, it is important to emphasise that the above are broad estimates only **at the total market level** and there are a number of issues to highlight:

- Channel shares vary considerably between product sectors.
- DIY multiples account for the largest share of garden products, accounting for an estimated 31% share of the market. Key product groups include garden equipment, leisure, horticulture, chemicals and sundries.
- Garden centres account for an estimated 23% share. Horticulture remains their key product sector, with chemicals, leisure and fencing also key areas.
- Growth of the Internet has driven growth in the 'Catalogue, mail order & Internet' channel which accounted for an estimated 15% share in 2014.
- High street & grocery multiples account for around 10%, with retailers in this sector tending to stock lower value, non-bulky products and the sector's offering tends to attract casual gardeners. The grocery multiples have gained share in particular in recent years, although this could be changing as different groups change strategy.
- 'Others' includes a range of distribution channels including builders merchants (strong in paving, aggregates, fencing etc.), direct (important channel in conservatories), independent hardware & DIY stores, Gift shops, etc.

Undoubtedly, while DIY Multiples and Garden Centres are the largest sectors, their shares are under pressure, with many Garden Centres now, for example, generating a higher proportion of revenue from 'non-garden' products (cafe/food halls, gifts, Christmas, books, clothing, pets etc) than from garden ranges, as illustrated in the chart below:

Garden Centres – Sales by Key Sectors



Source: GCA Barometer of Trade

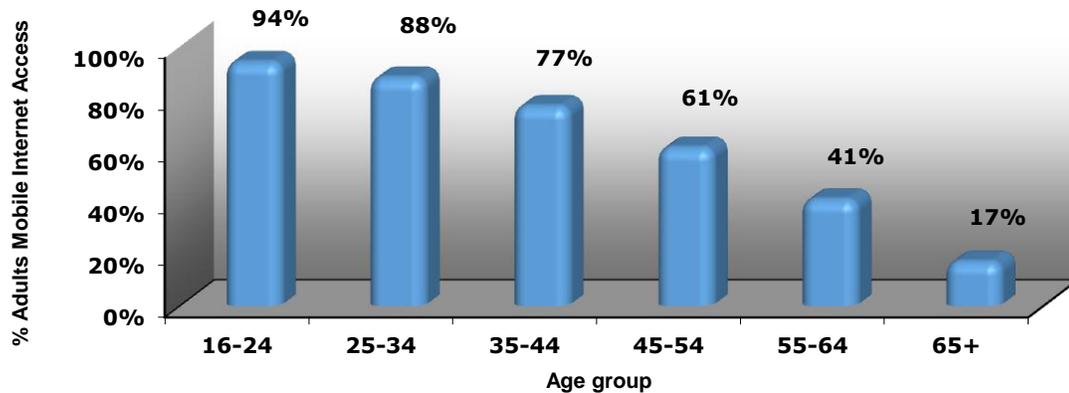
The figures above are a snapshot overview and all garden centres will have a different sales mix reflecting their size, location, history and local competition – and even the weather in different parts of the country. In general terms, horticulture remains the largest sector for outlets, supported by furniture/BBQs and garden sundries, but catering, gifts, Christmas, pets etc, all make a significant - and growing - contribution to turnover for many garden centres.

Whilst the 'Internet' channel's market size for garden products is currently relatively small, its influence on distribution and sales is much larger, having changed the way in which consumers are interacting with retailers.

Retailers initially responded to the change in shopping behaviour by adopting a multi-channel offering, but this is now moving towards *omni-channel* retailing which aims to present an easy approach for consumers via all available channels including brick-and-mortar, mobile Internet devices, computers, television and catalogue. For example, a recent survey of gardeners by the British Retail Consortium indicated that some 43% of store purchases of garden products started with an online search via smartphones - a level created from virtually nothing just 7-8 years ago, but illustrates the need for suppliers and retailers to change their marketing approach.

The following chart illustrates the percentage of adults who have mobile Internet access (mobile phones and/or portable computers) by age group in 2013:

Mobile Internet Use - % Access by Age Group 2013



Source: ONS/AMA Research

The figures show lower usage by older age groups who account for a higher proportion of sales in the garden sector, but these figures are for 2013 and are rising rapidly!

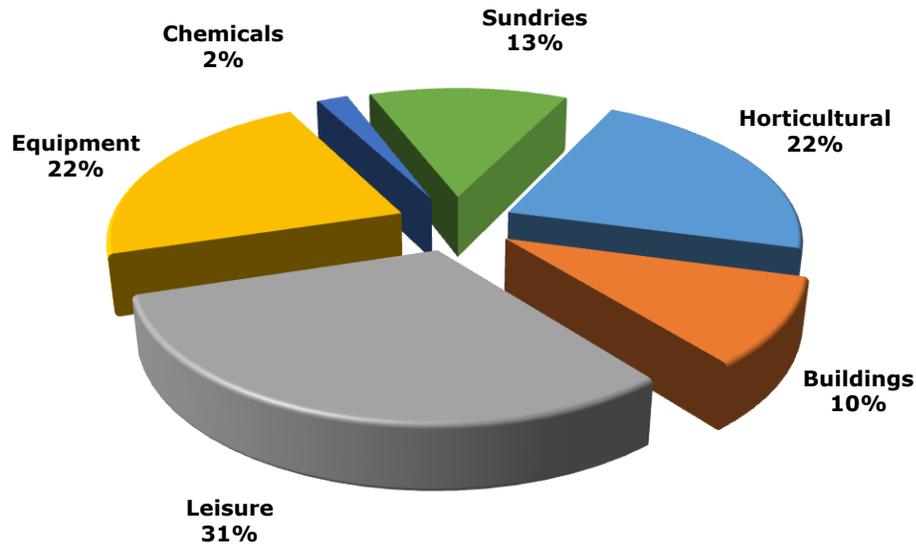
This omni-channel approach has been embraced by the DIY multiples in particular, with garden centres in general much slower to react to changing consumer needs - some garden centres do not have a transactional website, although most have invested in their websites in recent years.

The Internet has removed some of the barriers to entry previously enjoyed by traditional store-based retailers and other suppliers, which has allowed small and medium sized specialist online retailers to enter the garden products market, creating a new competitive dynamic.

Despite these changes, many customers still like to be able to see and test products they are considering buying. So, despite the increasing use of the Internet, 'traditional' stores and garden centres are expected to continue to be key channels during the 'buying' experience. However, the use of modern technology is not limited to younger consumers, as all ages of consumers now own mobile phones and tablets – a factor perhaps more relevant to garden centres who often have an older customer profile and have been slower to adapt to new technologies/media channels.

The following chart illustrates our estimates of the **Internet channel** by product category by value, although it should be noted that estimating the overall mix is difficult due to significant variations between different online operators and therefore the figures below should be taken as guideline estimates only:

Internet Sales - Garden Product Mix – % by Value, 2013



Source: AMA/Trade Estimates

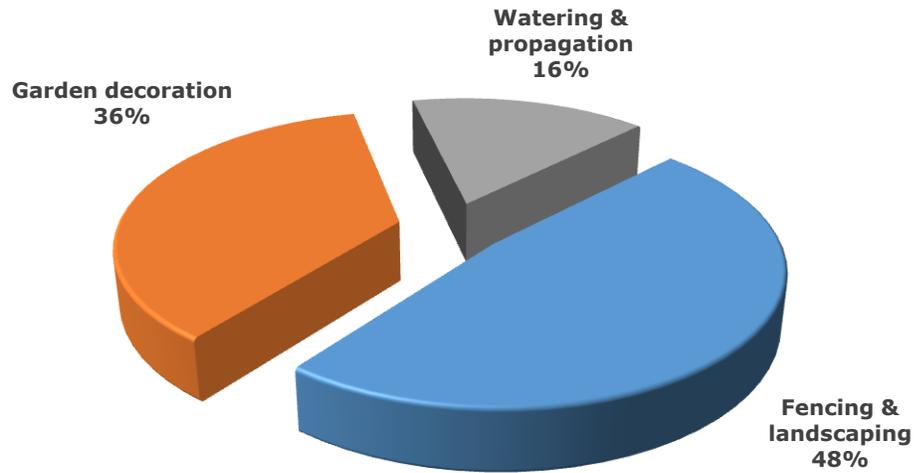
The shares above differ significantly from the overall garden products market, with online sales proportionately higher for garden leisure, buildings and equipment sectors, but much lower for chemicals, horticulture and some garden sundries sectors. Online sales are split between a mix of specialist online retailers and companies such as Argos and B&Q offering an *omni* channel approach as highlighted earlier.

As indicated earlier, the range of channels varies considerably between different product groups. While we can't review every product sector in this first report, we have illustrated in the next 2 charts our views on the mix and distribution of '**garden sundries**'. The range of products included within this **£1 billion** sector is diverse, but within AMA's definition the sector includes:

- Fencing & Hard Landscaping - paving, walling, decking, aggregates etc
- Garden Decoration - pots & planters, lighting, ornaments etc
- Watering & Propagation

The following chart shows our estimates of the product mix within the UK garden sundries market in 2014:-

UK Domestic Garden Sundries Product Mix - 2014 % By Value

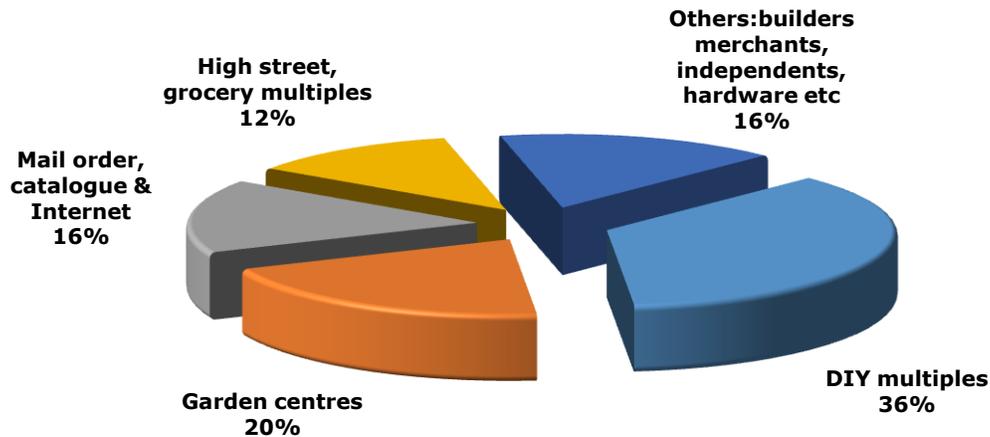


Source: AMA Research

Fencing and landscaping dominate the sector, accounting for an estimated 48% of the market, with sales having grown strongly in the last 2 years in particular – driven by a combination of adverse weather and a recovering economy. Garden decoration is another substantial category that accounts for an estimated 36% of the market, and constitutes a diverse range of products from relatively low cost pots and planters to higher value ornaments etc

With such a fragmented range of products, it's not surprising that the range of distribution channels is also diverse and our views on the mix between channels for 'garden sundries' is illustrated below, though these are intended as guideline estimates only:

Channels of Distribution for the Domestic Garden Sundries Market - 2014



Source: AMA Research/Trade Estimates

- DIY multiples are the largest channel for garden sundries with an estimated 36% market share, reflecting their presence in all product areas within this sector.
- Garden centres also offer products in all sectors making them a significant distribution channel, accounting for an estimated 20% share. Garden sundries is a key product group for garden centres and they tend to stock higher value products compared to the DIY multiples – particularly pots/planters and landscaping products such as paving.
- Mail order, catalogue & Internet channel accounts for an estimated 16% share, with the latter gaining share. All the products within the garden sundries market are available online, although this channel favours some products over others.
- 'Other' channels includes a wide range of outlets including builders merchants (key players in products such as paving, decking and fencing). Larger projects such as paving are often undertaken by contractors that tend to use builders merchants (and DIY multiples). However, whilst the merchants offer hard landscaping products, they do not offer many of the other garden products.

The above summary provides an initial insight into recent market trends, with a focus on garden sundries, and AMA will explore developments in other product sectors in future editions of their report.