Fletcher Building Distribution: light on its feet

MORE ISN'T NECESSARILY better, according to the CEO of Fletcher Building Distribution (FBD), **Dean Fradgley**, but operating with less, or being more agile, definitely is.

FBD performed well again in the recent half year results (see our March 2018 magazine) and "continues to benefit from strong momentum" at PlaceMakers, Mico and the steel distribution businesses, while across the ditch Tradelink's turnaround is "progressing to plan".

Inevitably, we kick off the conversation around high risk and low to no margins in vertical building. We talk about Carillion's failure in the UK and how, in Dean's view, good businesses should recognise skinny margins and focus more on the bottom line than the top line.

Noting the very low exposure of his division to fallout from the B+I division, we move on to matters of change and slowing growth.

Now in his fifth year as CEO, Dean Fradgley prefers to talk about a "normalisation" of the market with fewer peaks and troughs, rather than a downturn and, thanks to a programme of "efficient growth", when the market does come off the boil FBD isn't going to be left with much in the way of "stranded cost".

These days, he says: "You've got to find smarter ways to be cost effective and make money."

Mico's turnaround is a case in point. Taking lessons from the likes of Screwfix in the UK with its low property costs and, if colocating with PlaceMakers, a new Mico branch can break even in as little as six weeks.

Across the ditch, the new Tradelink model is similarly helping achieve profit in short order, again thanks to lower property costs, smarter merchandising and smarter ranging.

In short, as businesses they're light on their feet.

Says Dean: "You need that agility when the market turns. I like our property cost of sales to be less than 5%, ideally less than four. That frees up controllable costs so you're more viable through an economic cycle."

To illustrate this point, he lets on that, despite a flat market, the loss in revenue from PlaceMakers' Christchurch operations is still significantly less than the mean average in the industry.

MAKING IT SNAPPY

How does FBD's new *Snappy.co.nz* pureplay fit into that train of thought?

Of the division's 16 businesses, all but one are very traditional "list-less" offers.

Says Dean Fradgley: "We respect that market, it's the way New Zealand has always been and will continue to be, but…"

…But look at overseas models like *Build.com*, look at Screwfix, Toolstation and *Soak.com*, he says.

"Tradesmen who are working all day don't want to go to a branch. They're educating themselves to trade in a different way and be more efficient with their time. So we thought we'd test that model."

That test is *Snappy.co.nz* with its limited SKUs (around 5,000 to start with, like Screwfix in the early days) and rapid delivery.

"You see more and more corporates branching out and connecting with customers based on what customers really want – choice.

"People are changing their habits. The days of only working 35 hours a week with loads of leisure time haven't happened, right?

"So I don't see how people can avoid omni-channel or at least an e-commerce offer. The big problem is they take three years to break even."

Which is why for every Screwfix style success there has been a raft of e-commerce failures due to the high cost and the length of time it takes to build not only the software but also the brand.

Still, having mitigated a lot of the risk, Dean is sanguine about Snappy's prospects: "We won't get it all right and we won't get it all wrong, but e-commerce will absolutely come to this market."

By "this market" he not only means New Zealand – you may recall that Dean Fradgley's remit also covers Australia…

JOINT VALUE OR JOINT VENTURE?

To close things off, there's been word around the marketplace for some time that PlaceMakers is actively pulling back its JV model.

What is Dean Fradgley's reaction to this?

"Fake news!" he says flatly. "We have more JVs in PlaceMakers than we had when I first got here!

"When I first met with the JVs in 2014 we said we'd change the equity split [because] we thought the equity split wasn't in the interest of the major shareholder [Fletcher Building].

"We've done that and we didn't lose any JVs through that process.

"Second, I didn't think it was fair on the JVs just to re-sign every year. So now we essentially run a three-year contract – and we've just given our first five year contract – and we have more JVs than ever before which is absolutely fantastic.

"We've been very consistent in not giving give away JVs where we don't need to give away value. So in Auckland we haven't added any more JVs into the mix.

"Fletcher Building is a big customer to those PlaceMakers in Auckland – why would we give away value?" NZHJ

DEAN FRADGLEY:

"I don't see how people can avoid omni-channel or at least an e-commerce offer. The big problem is they take three years to break even"

Fletcher Building Distribution – Snapshot

Gross revenue last full year: $3.1 billion (+3% in year ended 30 June 2017)

Trade % of top line: 90%

Operating earnings last full year: $40 million (–77%)

PlaceMakers stores: 61

Mico branches: 65

PlaceMakers-Mico colocations: 9

PlaceMakers-Mico shared sites: 3